ABSTRACT

VINCENT-MARK, ARLENE A. B.A. FORDHAM UNIVERSITY, 1980

M.B.A. NEW YORK INSTITUTE OF TECHNOLOGY, 1982

M.I.A.D. CLARK ATLANTA UNIVERSITY, 1996

THE IMPACT OF NAFTA ON THE CARICOM COUNTRIES: THE CASE OF JAMAICA AND ITS TEXTILE/APPAREL INDUSTRY

Advisor: Professor Cedric Grant

Dissertation dated May, 2001

This study examined the impact of the North American Free Trade Agreement (NAFTA) on the economies of the Caribbean Community (CARICOM).

The study was based on the premise that the implementation of NAFTA would have negative consequences for the CARICOM economies. This was the prediction advanced mainly by political theorists, government officials and economic analysts primarily from the Caribbean region, who suggested that it would be in the best interest of both the economies in the subregion and of the United States, if NAFTA parity were granted to the former in order to alleviate or offset the problems they were likely to experience as a result of NAFTA.

A case study analysis was used to analyze the textile/apparel industry in Jamaica, the sector which was most vulnerable to the consequences of NAFTA. A number of

indicators/variables were utilized to evaluate the pre- and post-NAFTA impact on the industry. Evaluations of these variables were made based on data collected primarily from government sources in Jamaica and the U.S., and from interviews conducted with Jamaican government and industry officials.

The researcher found that there were existing problems within the industry in Jamaica prior to the implementation of NAFTA, that in some cases escalated after the passage of the Agreement. The conclusions drawn from the findings suggest that NAFTA could not be held accountable for the decline in performance of the industry, although it could have contributed to the worsening of the preexisting problems.

The results of the study suggest areas that the CARICOM nations need to pay particular attention to in their efforts to survive in an environment where trade liberalization and globalization will increasingly play an important role in global trade.

THE IMPACT OF NAFTA ON THE CARICOM COUNTRIES: THE CASE OF JAMAICA AND ITS TEXTILE/APPAREL INDUSTRY

A DISSERTATION SUBMITTED TO THE FACULTY OF CLARK ATLANTA UNIVERSITY IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF DOCTOR OF PHILOSOPHY

BY

ARLENE A. VINCENT-MARK

DEPARTMENT OF INTERNATIONAL AFFAIRS AND DEVELOPMENT

ATLANTA, GEORGIA

MAY 2001

R = ix T = 336

TABLE OF CONTENTS

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF FIGURES

LIST OF TABLES

LIST OF TABLES

LIST OF ACRONYMS

ACP	African, Caribbean and Pacific States
ACS	Association of Caribbean States
ATC	Agreement on Textile and Clothing
CABERA	Caribbean Basin Economic Recovery Act
CAP	Common Agricultural Policy
CARICOM	Caribbean Community
CBI	Caribbean Basin Initiative
CBTPA	Caribbean Basin Trade Partnership Act
CLAA	Caribbean and Latin American Action
EAI	Enterprise for the Americas Initiative
EFTA	European Free Trade Association
EPZ	Export Processing Zone
FDI	Foreign Direct Investment
FTA	Free Trade Agreement (Association)
FTAA	Free Trade Area of the Americas
FTZ	Free Trade Zone
GATT	General Agreement on Tariffs and Trade
GSP	General System of Preferences
IMF	International Monetary Fund

LIST OF ACRONYMS

IPR	Intellectual Property Rights
ISI	Import Substitution Industrialization
ITC	International Trade Commission
LDCs	Less Developed Countries
MDCs	More Developed Countries
MFA	Multifibre Agreement
MFN	Most Favored Nation
NAFTA	North American Free Trade Agreement
NICS	Newly Industrializing Countries
OECD	Organization for Economic Cooperation and Development
SEM	Single European Market
UNCLAC	United Nations Commission for Latin America and the Caribbean
UNCTAD	United Nations Commission for Trade and Development
USAID	United States Agency for International Development
USITC	United States International Trade Commission
WTO	World Trade Organization
WIC	West Indian Commission

CHAPTER I

INTRODUCTION

At the 1998 North East Regional Caribbean Students Conference held at Brown University in Rhode Island, the Prime Minister of Jamaica, P.J. Patterson, suggested that the "Caribbean faces three challenges in the New World Order – development aid to the 3rd World from industrialized countries, the economic marginalization of the Caribbean caused by NAFTA [composed of the United States (U.S.), Canada and Mexico], and the increasing 'technological bias' of the world."[1] These concerns were echoed by other Caribbean leaders such as the Prime Minister of Grenada, Dr. Keith Mitchell, who suggested that the "greatest challenge facing the region" is the ability of the countries to effectively manage the transition from an environment of preferential and protected markets, to one which encompasses a globalized market for goods, services and capital, the formation of large trading blocs, and the decline in official capital trade flows.[2] The Grenadian leader further elaborated on the issue of preferential access by pointing out that "the exclusion from the North American Free Trade Agreement (NAFTA) parity places the Caribbean region in a disadvantageous position, both with

---

[1] *The Herald Sphere*, April 13, 1998. From a speech by P.J. Patterson delivered to the North East Regional Caribbean Students Conference at Brown University in April 1998.

[2] *The Grenadian Voice* [newspaper on-line]; taken from a speech made to the Caribbean American Summit at Central State University, 1998. Available from http://www.spiceisle.com/gvoice; Internet ; accessed May 2000.

regard to market access to the U.S., and to the diversion of direct foreign investment from our region to other areas."[3]

In addition to the implementation of NAFTA, a number of other developments have provided the impetus for Caribbean leaders to rethink the manner in which they conduct trade with larger, more industrialized countries. These developments include the conclusion of the Uruguay Round of negotiations along with the establishment of the World Trade Organization (WTO), the enlargement of the European Union (EU), and the replacement of the Lome Convention with a new partnership agreement.

These issues were addressed by the West Indian Commission (WIC) which the Caribbean Community (CARICOM) Heads of State established in 1990 to make recommendations for advancing the goals and objectives of the Treaty of Chaguaramas. In its report, *Time for Action*, the WIC called for the region to become more mindful of the emerging globalization movement, and to take action to prevent the likelihood of the subregion becoming marginalized in the process. The report included, among other issues, recommendations for the CARICOM governments to take the necessary steps to allow for the "free mobility of capital within the region"; for the countries to remove all antiexport biases that may exist; and for the economies to aggressively seek the same concessions as Mexico but without reciprocity. The report also called for the private and public sector interests to organize themselves in order to maintain the region's viability in

---

[3] Ibid.

certain key areas such as garments, electronics, and other labor-intensive export industries[4]. Much emphasis was placed on trade issues by the WIC.

The importance of international trade as an integral component of economic activity in the Caribbean has long been recognized and cannot be overstated. This is reflected by the region's volume of trade (exports plus imports of goods and services) as a proportion of its Gross Domestic Product (GDP). For the Caribbean, the volume of trade as a proportion of the GDP was about 60% during the early 1900s,[5] and the ratio between the volume of trade and total GDP grew from 0.62 in 1970 to 0.68 in 1980.[6] For example, in 1988 ratios of foreign trade to GDP were as high as 61% in Trinidad and Tobago, 105% in Barbados, and 118% in Jamaica,[7] which are three of the largest among the small economies in CARICOM.

These economies[8] depend on trade for their growth and survival to a greater extent than large economies. Classical theory suggests that participation in international trade contributes to economic growth, by facilitating improvement in productivity

---

[4] The West Indian Commission, *Time for Action* (Christ Church, Barbados: Cole's Printery, 1992), 159.

[5] Irma Tirado de Alonzo, ed., *Trade Issues in the Caribbean* (Philadelphia: Gordon and Breach Science Publishers, 1992), 5.

[6] Ibid., 15.

[7] Ibid., 74.

[8] Small economies and less developed countries (LDCs) are terms which will be used interchangeably with developing countries, third- world nations, and underdeveloped countries throughout this work.

through the specialization in exports in which countries have comparative advantage.[9] When small economies produce for the world market, they are able to achieve the economies of scale which are generally difficult to generate if they were producing only for their small domestic market.

This type of open, multilateral trading system has been promoted as a stimulant to economic growth both through the static gains from increased efficiency in the utilization of existing resources, and the dynamic gains from the opportunities to expand productive capacity through the acquisition of new technology, investment, and innovative entrepreneurship. Nevertheless, although they are incorporated into this "free and open" global trading pattern, CARICOM countries, like most other small, developing economies, have enjoyed a special and differential treatment within this global trading system beginning in the immediate post colonial years.

Preferential trade arrangements based on nonreciprocity, have provided assured markets for CARICOM exports in the developed countries, and protection from competition from other exporting countries. These preferential trade programs which have been the cornerstone of the trade relations between developing countries and industrialized nations, were geared to enable the former to develop their economies without having to face competition from the more industrialized nations. However, these arrangements now appear to be in jeopardy as the twenty first century unfolds; and their

---

[9] John Pincus, *Trade, Aid and Development: The Rich and Poor Nations* (New York: McGraw Hill Book Company, 1967), 97.

likely demise poses serious threats to the economic survival of the CARICOM economies which have come to depend largely on the arrangements for their survival.

The Challenge Facing CARICOM

The participation of Mexico in NAFTA is perceived as a potential threat to CARICOM members, particularly the least developed members of the group. This is so primarily because of the importance to the islands' economies of the U.S. protected market, one which CARICOM leaders predict they will lose to Mexico as a result of NAFTA. In the past decade, the U.S. has increasingly replaced the EU as the main trading partner of CARICOM states, particularly as a market for the latter's manufactured goods. Total CARICOM exports to the U.S. amounted to US $2,052 million in 1991,[10] which comprised just over 50% of their world exports.[11] The U.S. provided the largest market for the Bahamas, Antigua and Barbuda, Jamaica, St. Kitts-Nevis, and Trinidad and Tobago in 1990, absorbing 50% or more of their total merchandise exports.[12] CARICOM's economic future is closely intertwined with the U.S. economy in other ways. The U.S. is the "largest source of CARICOM's tourists, the main market for its oil, bauxite, manufacturing and data services, the principal source of foreign direct

---

[10] GSR Associates, *Report on the North American Free Trade Agreement: Study Prepared for the CARICOM Secretariat* (Port of Spain, Trinidad, n.d.), 8.

[11] Ibid.

[12] Ibid., 49.

investment and the main source of remittances and other transfers. The U.S. is also the main source of imports."[13]

The assumption that NAFTA will have a disastrous negative impact on this volume of trade between the U.S. and CARICOM stems from the belief that trade and investment will be diverted from the region to Mexico as a result of the agreement.[14] The concern is that the benefits that the Caribbean countries enjoy under the preferential arrangements with the U.S., namely the General System of Preferences and Trade (GSP) and the Caribbean Basin Initiative (CBI), will erode as a result of Mexico's enhanced position with the U.S. under NAFTA.

CARICOM leaders claim that NAFTA has given Mexico certain advantages which most likely will increase its competitiveness vis-à-vis the CARICOM states. Mexico and CARICOM compete for the North American market in the tourism industry, manufacturing, and data services.[15] Under NAFTA, Mexico will be able to enhance its advantages relative to the CARICOM countries, especially since the former already benefits from its inexpensive labor, cheap energy, lower transportation costs, and economies of scale.[16] Mexico can now export the same products as the Caribbean

---

[13] DeLisle Worrell, "CARICOM and the North American Free Trade Area." Paper prepared for the Overseas Development Council (n.p., February 1992): 2.

[14] "The View from Washington: A Report on the NAFTA Discussions at This Year's Miami Conference on the Caribbean," *CANABUSINESS: The Financial Magazine of the Caribbean Community* 5, no. 4 (December 1993): 23.

[15] Worrell, "CARICOM and the North American Free Trade Area," 6.

[16] Richard Bernal, "The Caribbean Free Trade Agreement, NAFTA and the Caribbean Basin Initiative," *Caribbean Forum* 1, no. 1 (1993): 6.

countries to the U.S. at reduced rates or duty free. This ability by Mexico wipes out the advantage provided by the CBI to the region, since the provisions governing duty elimination are superior under NAFTA than under the CBI, prior to the passage of the Caribbean Basin Trade Partnership Act (CBTPA) in May 2000. which will be discussed fully in later chapters.

In addition to investment and trade diversion. Caribbean leaders have suggested that other likely effects of NAFTA on the subregion include import penetration, worsening of trade deficits and relocation of productive capacity to Mexico, which all may combine to result in the contraction of economic activity for the economies.[17] It is believed that if these conditions were to occur, there is the potential for the situation to escalate into serious economic, social, and political upheaval in the subregion.

There is increasing realization that because the Caribbean and the U.S. are in close proximity to each other, the effects of NAFTA in the former will most likely have an impact on the latter. Furthermore, economic problems in the Caribbean can also affect continuing degradation of the environment, ethnic, class and political conflicts within and among states in the region, and the spread of poverty-related diseases to other countries. In addition, an economic crises for the small economies can impede the economic development of other Caribbean states. For those who share the view that NAFTA poses a threat to the economic survival of the small Caribbean nations, the

---

[17] Ibid.

foregoing are some of the results they proffer as being inevitable consequences of the agreement.

Meanwhile, Canada's accession to NAFTA is not seen as likely to pose the same threat to the CARICOM countries as does Mexico's. A 1988 study conducted by the Conference Board of Canada concluded that concluded that trade under CARIBCAN - the free trade agreement (FTA) between the CARICOM countries and Canada - will not be altered by the then existing Canada/US Free Trade Agreement because of the uniqueness of the goods coming into Canada under the Program.[18] Besides, it is reported that the expansion in trade resulting from US/Canada FTA will have a positive impact on personal income and corporate profits, which in turn will result in greater import demand in other areas. Thus, it is suggested that if CARICOM countries were to maintain their level of Canadian imports, as that figure increases, so will the level of exports from these CARIBCAN countries.[19]

In addition, CARICOM sells ten times as much to the U.S. as it does to Canada. Based on 1990 figures, at least 43 % of CARICOM exports wind up in the U.S., compared with 4.5% for Canada.[20] As a consequence of these reasons, CARICOM leaders did not place much emphasis on Canada's accession to NAFTA as they did with Mexico's, which they saw as a threat to Caribbean interests particularly in certain

---

[18] The Conference Board of Canada, "Impact of Canada-United States Free Trade on CARIBCAN Countries," A Report prepared by the Department of External Affairs, Ottawa, Canada (October 1988).

[19] Ibid.

[20] "The View from Washington," 23

strategic industries such as textile and apparel. These are areas in which CARICOM does not enjoy total duty free access to the U.S. market,[21] even with the additional benefits provided in the March 2000 legislation signed by the U.S. Congress.[22]

It has been suggested that the primary sector that will feel the negative effects of NAFTA within CARICOM will be the textile/apparel industry.[23] This sector has developed to become an important source of foreign exchange for many member states. The industry experienced significant growth during the 1980s and 1990s in part as a result of the CBI which was implemented in 1984. The CBI has been credited for a "decade of unparalleled growth in trade between the U.S. and the Caribbean, acting as a catalyst for exports, investments and employment creation in the economies of the U.S. and the Caribbean nations, such as Jamaica."[24]

As a CBI designated country, Jamaica made significant progress in attracting new investors, particularly in the textile industry. Between 1980 and 1995, Jamaica's garment exports, primarily underwear and hosiery, rose from less than US $10 million a year to nearly US $600 million annually, yielding an average annual growth rate of 28%.[25] In 1989, apparel products led the way among the top manufactured product exported to the

---

[21] Worrell, "CARICOM and the North American Free Trade Area," 6.

[22] This legislation will be discussed more fully in later chapters.

[23] GSR Associates, *Report on the North American Free Trade Agreement*, xii.

[24] Bernal, "The Caribbean Free Trade Agreement, NAFTA, and the Caribbean Basin Initiative," 1.

[25] Larry Rohter, "Impact of NAFTA Pounds Economies of the Caribbean," *The New York Times*, January 30, 1997.

U.S., accounting for 52% (up from 9%) of Jamaica's manufactured goods exports to the U.S.[26] By 1994, textiles were responsible for 25% of the island's labor force, and constituted the largest non-traditional product. The industry grew to a $400 million a year business and the nation's second fastest growing economic sector.[27]

Other CARICOM countries that are expected to experience some negative effects in their textile/apparel industry as a result of NAFTA include Belize, Barbados, St. Kitts-Nevis, St. Lucia, and Grenada. CARICOM leaders have warned that it will not be in the best interest of the islands, and also of the U.S. and the rest of the hemisphere if these negative effects of NAFTA were allowed to occur. They suggest that the economies will experience further deterioration, a situation which can impact other nations in the hemisphere, and one from which they have yet to recover as a result of the structural adjustment programs beginning in the early 1980s.

As the world becomes more interdependent, it is increasingly difficult for other neighboring states to remain insulated from what is occurring in the rest of the hemisphere. One study by the InterAmerican Development Bank showed the effect of growing interdependence among economies in the hemisphere by concluding that the economic downturn in the Caribbean and Latin America during the 1980s had a negative impact on the U.S. economy, particularly as a result of the dramatic reduction of the

---

[26] Gregory K. Schoepfle and Jorge F. Perez-Lopez, "Export-Oriented Assembly Operations in the Caribbean," *Trade Issues in the Caribbean* : 150.

[27] Robert Selwitz, "CBI Nations Cry Foul When It Comes to NAFTA," *Global Trade and Transportation* 14 (August 1994) : 6.

region's imports from the U.S. The Bank estimated that while the Caribbean's and the Latin American's loss of purchasing power during the period was about US $ 500 billion, consequential reduction in U.S. exports to the region during that same period ranged from between US $ 50 billion to US $ 130 billion, which may also have resulted in the loss of about one million jobs in the U.S.[28]

Thus, CARICOM leaders warn that economic disaster for the Caribbean brought about by NAFTA could also have far reaching effects for the U.S. They predict that the U.S. could lose a valuable market resulting from the decline in Caribbean demand for its goods. American jobs could be lost, emigration from the Caribbean to the U.S. could increase, and so could the illegal drug trafficking industry between the islands and the North American mainland. Caribbean leaders also believe that there could be other social and political consequences which could increase instability and cause security problems for the U.S.

Prime Minister Patterson made the point that "it is in the interest of the U.S. to pay close attention to the effects of NAFTA, because of the need for continuing and consistent economic and social stability in the region."[29] One of the ways the leaders in the region think the situation could be helped is through the granting of a NAFTA parity-like arrangement, an issue that will be discussed in detail later.

Although there has not been total agreement with this viewpoint concerning the

---

[28] UNECLAC, "The Caribbean and the North American Free Trade Agreement, " Caribbean Development and Cooperation Committee (December 1992) : 4.

[29] "The View from Washington," 23

effects that NAFTA will have on the economies in the region, some important non-CARICOM sources in the U.S. seem to support the view that there could be negative consequences. Preliminary studies by the World Bank concluded that NAFTA will have relatively minor effects on the Caribbean, but the sectors most likely to be affected would be textiles and clothing. The Bank has predicted that "after the end of 10 years, the annual loss could be in the region of $ 5 – 7 million (US) and that Jamaica could bear the brunt or about 80% of the loss", which would be about US $ 4 - 6 million per year.[30]

Nevertheless, in 1995 in a later report by the Bank, it was estimated that the total losses of the Caribbean countries resulting from NAFTA were most likely to be between US $35 million and $53 million; and economies to be affected would be the Dominican Republic, Jamaica and Haiti, with up to 45 – 60% of their exports displaced by Mexico.[31] In a later study, the Bank estimated that more than one third of the US $ 12.5 billion worth of goods (1997 figures) exported to the U.S. annually from the Caribbean islands could be replaced by Mexican imports if the existing trade rules remain intact.[32]

A report commissioned by the United States International Trade Commission (USITC) on the potential effects of NAFTA on apparel investment in the Caribbean

---

[30] Cited in *Report on the North American Free Trade Agreement*, xii.

[31] "If You Can't Beat Them.. [*sic*] The Threat to CARICOM from NAFTA, " *Caribbean and Central American Affairs*, May 1995, 10.

[32] Rohter, "Impact of NAFTA Pounds Economies of the Caribbean."

Basin countries, found that NAFTA "will improve the relative costs competitiveness of Mexican producers compared with their counterparts in the Caribbean and Central America", and that it will introduce incentives that will tend to favor shifts in apparel investments from the Caribbean countries to Mexico.[33] This issue will be further examined in greater detail under "The Threat That NAFTA Poses to CARICOM" in a later chapter.

Significance, Rationale and Purpose of the Study

This study will examine the impact of NAFTA on the textile/apparel industry in Jamaica. This country has the largest apparel industry in the CARICOM group, and is the one that benefited most from the CBI. Jamaica also wields a significant amount of political and economic influence in the region as one of the largest economies in the grouping. Additionally, there are relatively few studies conducted on the impact of NAFTA on the textile/apparel industry in the Caribbean Basin. David Lewis observed that in the early stages of NAFTA discussions, all analyses and references to NAFTA have concentrated on its likely impact on the North American economies (U.S.A, Canada, and Mexico). He found that "other than the Puerto Rican Resident Commissioner Jaime Fuster's November 21, 1990 . . . statement for the record to the Subcommittee on Trade . . . there have been no references to the impact of NAFTA on

---

[33] USITC Publication 2451, "Potential Effects of a North American Free Trade Agreement on Apparel Investment in CBERA Countries" (Washington, D.C.: USITC, July 1992).

the economies of the Caribbean Basin."[34] Since his observation, there have been studies and reports on the "potential" impact and effects of NAFTA on the CARICOM states.

However, in-depth studies of the effects on the textile and apparel industry in CARICOM are somewhat limited. This sector within CARICOM benefited most from the CBI, and is the one in which Jamaica had the largest and most significant level of investment. Additionally, since Jamaica is one of the largest and most politically influential members of the CARICOM group, it is appropriate to examine the impact of NAFTA on that island's industry.

This study will attempt to determine the validity of the concerns, predictions, and fears expressed by CARICOM leaders and others regarding the negative impact on CARICOM economies, and investigate whether these predictions are materializing more than five years after the signing of the Agreement. If this is indeed the situation, then a valid case can be made in support of the recently passed CBTPA, that grants the CBI countries' textile/apparel industry access equivalent to Mexico's. This focus on Jamaica will help to provide an insight into how other countries could deal with a similar situation within their industries.

The study can also provide an insight into what these small economies are likely to confront if and when they are integrated into the larger Free Trade Area of the Americas (FTAA), the proposed hemispheric trading bloc encompassing all the countries in the Americas (excluding Cuba), by 2005. It will provide an understanding

---

[34] David E. Lewis, "The North American Free Trade Agreement (NAFTA) and Its Impact on the Caribbean Basin Economies," *Caribbean Studies* 24, no. 3-4 (1991): 102.

of how the economies can strategically position themselves to compete in an increasingly globalized and liberalized world trade system, where preferential arrangements are gradually being eliminated.

Premise of the Study

The implementation of NAFTA in 1994 is being credited by some segments of Caribbean and U.S. policy makers and industry spokespersons as having had, and continuing to have a negative impact on the textile/apparel industry in Jamaica. It has been charged that the free trade agreement between Canada, Mexico and the U.S., has decreased the rate of growth in the island's textile/apparel sector, one in which growth was promoted and encouraged through the establishment of the CBI. This decrease in the rate of growth is supposedly manifested through the decline in the industry's levels of U.S. investment, foreign exchange, contribution of its earnings to the island's GDP (Gross Domestic Product), exports, employment, and in the number of plants in operation and that have been opened. Furthermore, the decline is also reported to be marked by an increase in the number of textile/apparel plants relocating to Mexico from the island, and in the number of plant closings.

The growth of the textile/apparel industry in Jamaica was a direct result of the country's focus on an export-oriented trade strategy adopted in the 1970s, and stimulated by the enactment of the preferential trade agreement between the U.S. and the countries of the Caribbean Basin. An important aspect of this program was the intent to stimulate the flow of U.S. foreign investment to the region, and to spawn the growth of export oriented industries. However, with the implementation of NAFTA, it has been predicted that a reversal in the rate of growth of the sector will and has occurred. Six years after NAFTA, this issue is being examined in the present study.

Hypotheses

- Free trade generates economic development
- Preferential trade is appropriate for small economies
- NAFTA is both free trade within a bloc and preferential trade against those countries outside the bloc
- NAFTA has had a negative impact on the textile/apparel industry in Jamaica

Research Methodology

The study will essentially be an investigative exercise to find out whether the effects that had been predicted by many Caribbean government officials, some U.S. lawmakers and textile/apparel industry officials regarding the establishment of NAFTA and its impact on CARICOM countries, are indeed occurring. It will begin by providing an overview of the relationship between free trade and economic development with a comprehensive review of the classical argument that free trade promotes economic development. The discussion will focus on why the classical theory that justifies free trade and a liberalized global trade system is pertinent to small economies, and in this case, the CARICOM nations.

However, since the CARICOM countries' trade relations with developed countries have been historically conducted under a system based on preferential arrangements, the study will explore the rationale for this type of trade regime as a necessary element for the development and survival of these countries within the context of the classical theory. The discussion will therefore, examine NAFTA as an arrangement that promotes free trade, while at the same time possessing some attributes of a preferential agreement.

Finally, the study will conclude with an investigation of NAFTA's impact on the CARICOM economies and in particular on the textile/apparel industry in Jamaica. The analysis will examine the importance of trade for CARICOM economies, and the preferential arrangements which govern trade between the U.S. and CARICOM, mainly the General System of Preferences (GSP) and the CBI. (While some other preferential arrangements that are important to the CARICOM states will be briefly mentioned, the main thrust will be on the CBI). Since the CBI has been credited with contributing to the growth of the manufacturing sector in CARICOM during the period leading up to NAFTA, a detailed study of the CBI will be conducted to determine its contribution to the development of the textile/apparel industry in Jamaica. The growth of the industry will be tracked, beginning from the pre CBI period to the late 1990s, covering the years from the early 1980s to 1999. Data from government sources (both U.S. and Jamaican governments) will be collected on the following dependent variables/indicators, and will be used to illustrate the growth (or decline) patterns in Jamaica's textile/apparel industry:

- level of U.S investment in the Jamaican textile/apparel industry
- foreign exchange earned from the textile/apparel industry
- contribution of earnings from the textile/apparel industry to Jamaica's GDP
- level of textile/apparel exports to the U.S

- number of textile/apparel plant openings in Jamaica
- number of textile/apparel plants in operation in Jamaica
- number of textile/apparel plant closings in Jamaica
- percent of the population workforce employed in the textile/apparel industry over the period considered.

These variables/indicators will be collected from data obtained from sources including government agencies, national and international organizations such as:

- the United States Department of Trade and Commerce
- the United States International Trade Commission (USITC)
- the United States Agency for International Development (USAID)
- Office of U.S. Trade Representative (USTR)
- The U.S. Labor Department
- The U.S. State Department
- the Jamaican Ministry of Industry, Commerce and Technology
- Jampro (the Jamaican export promotion agency)
- The Statistical Institute of Jamaica
- The Planning Institute of Jamaica
- The Organization of American States
- The Inter-American Development Bank
- The World Bank
- NAFTA Secretariat

- The CARICOM Secretariat
- The Textile and Apparel Institute in Jamaica
- The American Apparel Manufacturers Association
- The American Textile Manufacturers Institute
- The Jamaican Gleaner (newspaper).

An analysis of the variables/indicators would be conducted utilizing graphs and tables to illustrate growth and development in the industry in the pre CBI period, the CBI period up to the signing of NAFTA, and the post NAFTA period up to 1999. Growth and development in the industry will be calculated by the percentage change (PC) in the variables/indicators[35] which will be displayed by year in a graphical and tabular format for interpretation and analysis of the results. Both percentages and absolute numbers will be utilized in the analysis of the variables.

The study will also take a brief look at the increase in U.S./Mexico trade and the growth in the textile/apparel industry in Mexico in terms of exports and export earnings during the same period examined for Jamaica.

The Time Frame

The period under examination for the study will span from 1980 to 1999[36]. The data collected will be analyzed based on 3 periods:

---

[35] Percentage Change (PC) will be calculated as (V2 - V1)/V1 x 100, where V2 and V1 are the ending and beginning values respectively of the different variables.

[36] Where figures for 1999 are unavailable, the latest documented figures will be presented.

1) 1980 to 1984, which will be considered the pre-CBI period. This time frame will provide an insight into the status of the industry prior to the implementation of the CBI;

2) 1984 through 1994, which represents the post CBI period. This span will allow an analysis of the industry as a result of the preferential agreement. It would show the increase in the rate of growth of the textile/apparel sector;

3) 1994 through 1999, which will be the period in which the effects of NAFTA will be examined. The changes in the dependent variables during this period will assist in providing a possible answer to the question of whether NAFTA did indeed have a negative impact on the island's textile/apparel industry.

The entire period from 1980 through 1994 will show the growth pattern or trend in the industry which had occurred before and after the implementation of NAFTA.

The results of the study will help to confirm or refute the claim that NAFTA has had a negative impact on the textile/apparel industry in Jamaica. A negative impact will be represented by either a negative PC or a decline in the pattern of growth exhibited by the following indicators in the post NAFTA period as compared to the pre NAFTA years:

- level of U.S. investment in the textile/apparel industry
- foreign exchange earned from the textile/apparel industry
- contribution of textile/apparel industry earnings to Jamaica's GDP
- level of textile/apparel exports to the U.S.
- number of textile/apparel plant openings

- number of textile/apparel plants in operation
- percent of population workforce employed in the textile/apparel industry

In addition, a positive PC or an increasing growth trend in the post NAFTA period in the number of textile/apparel plant closings, would be interpreted as a negative impact on the industry:

However, if the results indicate that these trends or pattern of increase/decline began prior to the implementation of NAFTA, then the study will conclude that NAFTA, while it could have played a role, cannot solely be held responsible for the decline currently being experienced in the industry in Jamaica. If the analysis shows the former - that the decline in the industry coincided with the implementation of NAFTA and thus was most likely as a result of the FTA, *ceteris paribus* - then the claims that CARICOM leaders and others have made will appear to be credible ones. Such results provide the basis for these advocates to validate the need for the enhanced CBI trade package - one that allows the CBI beneficiaries to utilize the arrangement to increase their competitiveness in the world market, while maintaining the arrangement until such time that they can diversify their economic bases, and develop alternative strategies that will allow them to compete more effectively with more developed economies.

Such results will also add legitimacy to the concerns of the CARICOM leaders and others who predicted that the socioeconomic and political fallout on the economies of the subregion could be disastrous for the nations in terms of rising unemployment, reduced social services, increase in the level of emigration from the region to the more prosperous North American states, increased crime, growth of the narcotrafficking industry, a decrease in the demand for U.S. exports, and an overall increase in economic and social hardship for the islands. This situation could also lead to political instability in the region if an enhanced trade arrangement was not implemented.

Limitations and Explanations

As is the case with many developing countries, complete sets of data and information were not be readily available or accessible for all of the dependent variables being examined. An effort was made, however, to obtain all necessary data from various sources.

The analysis of the effects of NAFTA on the textile/apparel industry in Jamaica was somewhat complicated by the issue of how to separate causality from association, and how to eliminate the effects of multiple influences on the industry. However, in regards to assessing the impact, it was possible to employ different alternative approaches to analyzing the issue, two of the most frequently used for this type of study being the "before-after" approach, and the "with-without" approach.[37]

The "before-after" approach will be the one utilized in this study because it will better facilitate the analysis and comparison of the industry's performance before and after the implementation of NAFTA. While it is a simple instrument to apply, its major limitation is that it will attribute all observed changes after NAFTA to the implementation of NAFTA, and can therefore bias the results. In order to minimize the

---

[37] These are two approaches identified, described and utilized in a study of the impact of structural adjustment, described by C. Kirkpatrick in "Does Trade Assist Third-World Industrial Development? Experience and Lessons of the 1980s." *International Review of Applied Economics* 9, no. 1 (1995): 28.

risk of this occurring, the study will assume *ceteris paribus* conditionalities. In addition, due to the nature and number of the indicators employed, the impact of the limitation inherent in this approach is lessened. Additionally, any external circumstances that can be identified during the period under investigation that may impact or bias the results will be addressed during the analysis.

The "with-without" approach is less suitable for this study since the method will compare the performance of industries affected by NAFTA with one that may not appear to be. The problem here is that in the case of the industry that may not be affected by NAFTA, other outside forces or programs may influence the performance of that industry.

Outline of Chapters

The first chapter includes the introduction and an overview of current global economic developments and the challenges that face the CARICOM economies, particularly in the area of trade. Chapter 2 provides the conceptual framework and discusses the classical free trade model and the contribution of free trade to economic growth and development. The literature also deals with the importance of trade to small economies such as the CARICOM states. Chapter 3 gives a historical perspective of the CARICOM economies, and the socioeconomic and political challenges they face in light of the global economic changes occurring in the last two decades. Chapter 4 looks at the major preferential trade arrangements which govern CARICOM trade, and discusses the various ones that CARICOM countries have enjoyed for the last two decades. A detailed discussion of the CBI is provided in this section. Chapter 5 goes into much detail on

NAFTA, and the challenge it poses for the CARICOM states in reference to the textile/apparel industry and the erosion of preferential benefits to CARICOM. An analysis of NAFTA as a preferential arrangement within a bloc, and as a free trade arrangement outside the bloc is provided. In Chapter 6, the Jamaican economy is reviewed in detail, especially the development of the manufacturing sector, including the textile/apparel industry. Chapter 7 analyzes the data collected about the industry in Jamaica, and how it is being affected by NAFTA. It summarizes the findings and comments on recent developments that have occurred that are germane to the study. Chapter 8 , the conclusion, provides possible alternative strategies for development that CARICOM economies can pursue in the changing international trade environment.

CHAPTER 2

CONCEPTUAL FRAMEWORK

The Classical Free Trade Model: Free Trade Generates Economic Growth and Development

The importance of trade as an instrument for economic growth and development has long been espoused by both classical and neoclassical theorists. The earliest model of international trade is based on the principle of comparative advantage developed in the early 18th century by a group of English economists, the most renowned being David Ricardo, whose name is frequently associated with the theory. Comparative advantage has been the foundation of the theoretical rationale for the development of international trade structures, as well as how trade should be determined.[1] According to the theory of comparative advantage, world trade is increased and countries gain when they specialize in products in which they have greatest the relative efficiency, and export them in return for goods in which their relative advantage is least.[2] This case for increased international specialization and trade based on the principle of comparative advantage relied on a simple static model involving basically two countries, two commodities, one or more

---

[1] Irma Tirado de Alonso, "The Structure of Caribbean Trade: A General Overview, " *Promoting Investment and Exports in the Caribbean Basin: Papers and Proceedings*, ed. George P. Montalvan (Washington, D.C.: OAS, 1989), 143.

[2] Peter H. Lindert, *International Economics* (Boston: Richard D. Irwin, Inc., 1991), 41.

factors of production, constant returns to scale, full employment, and perfect competition.[3]

In the early part of the 20th century, Swedish economists Eli Hecksher and Bertil Ohlin, further elaborated on the Ricardo version of trade theory and comparative advantage. Their model reiterated that it was possible for all countries to gain by engaging in free trade. As each nation specializes in production according to its comparative advantage, each can "enlarge its consumption capacity without technical change or an increase in resources".[4] This theory played an important role in third world countries' focus on production of primary products for export, while serving the political interests of "colonizing nations searching for raw materials to feed their industrial expansion and for market outlets for their manufactured goods."[5]

The classical theory suggests that free trade promotes competition, allocates resources in a more efficient and effective manner, and stimulates economies of scale in areas where the less developed countries have a comparative advantage. All these factors will combine to result in increased productivity.[6] Consequently, there will be a

---

[3] Bruce Herrick and Charles Kindleberger, *Economic Development* (New York: McGraw Hill Books Company, 1983), 412.

[4] Charles P. Oman and Ganeshan Wignaraja, *The Postwar Evolution of Development Thinking* (New York: St. Martin's Press, 1991), 69.

[5] Michael Todaro, *Economic Development* (New York: Longman Press, 1994), 422.

[6] Ibid., 506; C. Kirkpatrick, "Does Trade Liberalization Assist Third-World Industrial Development? Experience and Lessons of the 1980s," *International Review of Applied Economics* 9, no. 1 (1995) : 25.

lowering of production costs and subsequently prices, and the incentive to improve quality will increase.[7]

Classical theorists thus emphasize the importance of free trade involving an open and outward-looking international trade policy as a requirement for non-industrialized countries to achieve growth and development.[8] The earlier proponents of this trade policy usually emphasized the static benefits that could be derived from engaging in such a strategy. Some of the earlier proponents of free trade such as economists Adam Smith, David Ricardo, Thomas Malthus, and John Stuart Mill have been credited with contributing to laying the foundation for what is now considered the most acceptable and popular trade theory of modern growth and development. Adam Smith wrote about the static gains from trade as being a source of profits which could facilitate capital accumulation and growth. According to Smith, trade stimulates productivity which leads to economic growth by widening the market, permitting greater division of labor and a higher level of domestic productivity.[9] John Stuart Mill's contribution to the body of literature centers around the way in which trade allows for a more efficient use of world resources:

> . . . A country which produces for a larger market than its own , can introduce a more extended division of labour, can make greater use of machinery, and is more likely to make inventions and improvements in the process of production . . . .[10]

---

[7] Todaro, *Economic Development*, 506.

[8] Ibid., 425.

[9] John Pincus, *Trade, Aid and Development: The Rich and Poor Nations* (New York: McGraw Hill Book Company, 1967), 93.

[10] Ibid., 98.

However, criticism of this model had been recorded in recent years in that it is viewed as having focused primarily on the static gains, that it "presents only a timeless 'cross-section' view of comparative costs and fails to take into account dynamic elements."[11]

As the body of work on trade continued to expand, economists began to espouse other benefits that result from a free trade policy - these they referred to as dynamic benefits. As a result, trade has been promoted as an agent for growth and development through both the static and dynamic benefits that accrue to an economy, in particular to those of the small non-industrialized nations with which this study is concerned.

With the emergence of the neoclassical school, the benefits of trade have expanded beyond static gains which the classical model promotes, to include the dynamic benefits which are considered to be significant, particularly as they relate to the small non-industrialized economies. In recent years, it is dynamic gains on which the focus is placed as far as the issue of trade benefits are concerned. In the neoclassical model, exports are considered as the key stimulus to

> . . . greater capacity utilization, greater horizontal specialization, increased familiarity with and absorption of new technologies, greater learning by doing as a result of expanded output levels, and the stimulation effect of having to achieve international price and quality levels . . . .[12]

It has been suggested that since trade increases the national incomes of all participants, it allows a higher level of savings, capital formation, and income growth

---

[11] Gottfried Haberler, "International Trade and Development, " in *Economic Trade and Development*, ed. James D. Therberge (New York: John Wiley & Sons, Inc., 1968), 104.

[12] Kirkpatrick, "Does Trade Liberalization," 26-27.

than would not be possible without trade. [13] Proponents of free trade cite a number of dynamic benefits and advantages of the free trade model. Trade facilitates the transfer and provision of essential capital goods, raw and semifinished materials required for increasing output; it stimulates competition and thus increased productivity; and it attracts capital through international investment. In addition, it helps to overcome the disadvantage of small domestic markets.[14]

Trade also plays an important role in the dissemination of technological knowledge , the transmission of ideas , "the importation of know-how, skills, managerial talents and entrepreneurship."[15] Proponents also consider trade as "the best antimonopoly policy" guaranteeing the maintenance of a healthy degree of free competition, and limiting the activities of inefficient monopolies.[16]

International trade is considered to play a more important role in small countries' economies than in larger ones. This is due to the fact that exports constitute a small proportion of outputs in most industries in large economies while the opposite is true for small ones :

> . . . countries which are small in population and national output do not have the range of industries to provide the services of engineering and design which aid the development of internationally marketable commodities. . . . [17]

---

[13] Pincus, *Trade, Aid and Development*, 109.

[14] Ibid., 123.

[15] Haberler, "International Trade and Development," 109.

[16] Ibid., 110.

[17] Yosra A. Amara, "Externally Traded Services and the Development of Small Economies," *External Linkages and Growth in Small Economies*, ed. David L. McKee (Westport, CT.: Praeger Publishers, 1994), 8.

In most small underdeveloped economies, a large percentage of income is spent on imports, with even a larger portion of their output being exported. This occurs to a larger extent with developing than with developed countries.[18]

Trade as a Catalyst for Development in Small Non-Industrialized Economies

According to the classical theory of trade and development, developing countries are considered to have a competitive advantage in primary products. The model further suggests that these less industrialized nations can develop by concentrating on producing "labor intensive goods and land intensive primary products", and exchanging them for more capital intensive imports from the more developed economies.[19] As a result of the gains that could be achieved, trade could stimulate economic development in these countries by enabling the import and export sectors "to furnish vital inputs to development, provide revenues to eliminate the debt problem, and ultimately promise a better standard of living."[20] In developing countries which suffer from lack of foreign capital and technical expertise, trade is therefore seen to play an important role in attracting these invaluable resources to the countries. Another important benefit associated with free trade to developing countries is the generation of much needed foreign exchange which these nations need for socioeconomic development programs within their societies.

---

[18] Haberler, "International Trade and Development, " 104.

[19] Oman and Wignaraja, *The Post War Evolution*, 70.

[20] Devanand Ramnarine, "The Philosophy of Development Prospects for the CBI," *Imperial Power and Regional Trade: The Caribbean Basin Initiative*, eds. Abigail A. Bakan, David Cox and Colin Leys (Waterloo, Ontario: Wilfrid Laurier University Press, 1993), 84.

The case for export led growth in developing nations appears to be somewhat convincing. Access to the rich countries' markets enables small, non-industrialized economies to overcome the handicaps of a limited home market which is constrained by inefficient purchasing power.[21] Trade allows these nations to access the mix of capital, technology and know-how of transnational corporations, and the earnings gained from exports constitute a source of much needed foreign exchange used for financing development.[22]

From an historic perspective, trade appeared to have acted as an engine of growth in the 19th century for the present industrialized countries.[23] It can therefore be understood why some developing countries in the immediate post World War II period embarked on their aggressive path to achieve socioeconomic development, utilizing the principles of comparative advantage and free and open trade as their road map. For some time during the 1950s and 1960s, many Third World countries began posting impressive growth rates, thereby adding credence to the classical and neoclassical trade theories. However, as these countries began facing declining growth rates a few years later, and as social conditions in many of these nations showed no signs of improvement (in some cases, they declined), the euphoria about free trade and its contribution to development began to dissipate in some regions of the Third World.

---

[21] Wolfgang Hager, "North-South Trade and Socioeconomic Autonomy: A Peace Formula," *International Trade and Third World Development*, ed. Pradip K. Ghosh (Westport, CT: Greenwood Press, 1984), 81.

[22] Ibid.

[23] Herrick and Kindleberger, *Economic Development*, 411 - 412.

The principle of comparative advantage began coming under increasing scrutiny and skepticism from different quarters, particularly from theorists from the developing countries. These theorists began to uncover several shortcomings in the classical model as it related to small developing economies, most of which had been tied in a colonial relationship with the industrialized nations for many years. Questions were being asked as to why trade had not transmitted the type of growth patterns in the Third World as it had been credited with in the industrialized nations.

Among the shortcomings in the model that these detractors established were:

> . . . short term instability, long run costs, and the irrelevance of the two-country, two-factor, two-commodity model in a real world of international factor movements, capital accumulation, changing technology, and intermediate goods . . . .[24]

Another criticism that was directed towards comparative advantage was that factor endowments are not fixed :

> . . . physical capital, human resources, and even natural resources change with time and with technological advance. . .[25]

Bruce Herrick and Charles Kindleberger offer some further explanations as to why the static model of comparative advantage is limiting:

> While land and natural resources may remain relatively unchanged in the short and intermediate run, capital stock and labor force grow at steady and usually disparate rates . . . thus at any given time, a country may lose its comparative advantage in a product as time passes . . .[26]

---

[24] Ibid., 414.

[25] Pincus, *Trade, Aid and Development*, 126.

[26] Herrick and Kindleberger, *Economic Development*, 413.

These two authors further posit that comparative advantage can be changed by international movements of capital and labor:

> . . . since diffusion of technology occurs only slowly, trade may be explained at any given time not solely by differences in factor proportions but by differences in technology as well ...technological change may undermine a country's basis for specialization . . .[27]

Raul Prebisch, an economist with the United Nations Commission for Latin America (UNCLA) in the 1950s, became an eminent detractor of the classical model of trade. Along with others challengers such as Gunnar Myrdal, he proposed several reasons why the classical model of trade was not working for these small developing nations. Myrdal also questioned the classical model concerning trade as an agent for development, and suggested that there were systematic forces at work in the developed world that tend to diminish the benefits of trade to the small underdeveloped nations.[28] These economies are profoundly different from the industrialized countries in various ways, including socially, politically and culturally.

It was suggested that the failure of free trade in boosting sustained economic growth in the underdeveloped economies was partly as a result of societal circumstances, (for example land tenure, and credit systems), that together maintained the prevailing economic pattern and were resistant to change.[29] Myrdal also elaborated on the fact that

---

[27] Ibid., 421.

[28] Pincus, *Trade, Aid and Development*, 126.

[29] Ibid., 123.

the growth in free trade had not narrowed the income gap between industrial countries and the underdeveloped nations, but that this trade tended to widen the gap:

> . . . if left unregulated, international trade and capital movement would thus often be the media through which the economic progress in the advanced countries would have backsetting effects in the underdeveloped world . . . [30]

Myrdal arguments against trade as an agent for long-term growth were based on "low price and income elasticities of demand for primary exports".[31] The small economies' dependence on primary commodities for exports was seen to have several drawbacks such as the instability of returns from exports and the difficulty to adapt quickly to changing events.[32]

One of the most forceful arguments that was used to explain the failure of the classical model in promoting sustained growth levels in the underdeveloped economies, particularly those in the Latin American and Caribbean region. was the terms-of-trade theory most closely associated with Raul Prebisch. He offered that the problem the developing countries faced when trading their primary products for manufactured goods from industrial countries was structural.[33] He explained that the Third World economies were being hurt by the downward tendency in the prices of primary products[34]; and that

---

[30] Ibid., 126.

[31] Ibid., 127.

[32] Amara, "Externally Traded Services," 8.

[33] H.W. Singer, "Terms of Trade and Economic Development," *Economic Development*, eds. John Eatwell, Murray Milgate and Peter Newman (New York: W.W. Norton, 1989), 323.

[34] Raul Prebisch, *The Economic Development of Latin America and Its Principal Problems* (N.Y.: UNECLAC, 1950).

the underlying economic argument that facilitated the downward trend in the terms of trade for developing countries involved the "differing elasticities of demand for primary commodities and manufactured goods",[35] and the failure of the underdeveloped economies to benefit from technological progress.[36]

Another problem with the trading relationship between the developed and the underdeveloped economies that was cited was the fact that the underdeveloped countries' exports were priced competitively while the developed countries enjoyed monopolistic markets.[37] Prebisch went on to predict that the demand for primary commodities was likely to experience less of an increase than the demand for manufactured goods, due partly to the lower income elasticity of demand for the primary agricultural products, and to the technological advancement of the industrial countries exporting the manufactures.[38]

By the late 1960s, most developing countries facing declining socioeconomic conditions became disillusioned with the free trade model and reliance on their comparative advantage in producing and trading primary exports. They began to look at alternate models of development and the challenge for them was to come up with a model that took into consideration their unique circumstances. They were faced with basically three options:

---

[35] Pincus, *Trade, Aid and Development*, 129.

[36] Ibid.

[37] Ibid.

[38] Singer, "Terms of Trade and Economic Development," 326.

1) relying on primary product exports, 2) developing manufacturing industries that would produce for protected home markets (import substitution industrialization - ISI), and 3) developing manufacturing industries producing for export to the industrialized countries (export oriented policies.)[39]

Many developing countries came to believe that continuing to specialize in the production of primary commodities, while it may

> maximize welfare in the short run, would relegate them to a subordinate position vis-a-vis developed nations, and keep them from reaping the dynamic benefits of industry, and therefore maximize their welfare and growth in the long run.[40]

The countries wanted to access some of the dynamic benefits from embarking on industrial production which included a more trained labor force, more innovations, higher and more stable prices for the nations' exports, and higher income and employment for the citizens.[41] They therefore made a deliberate effort to industrialize rather than continue to specialize in the production of primary commodities - food, raw materials, and minerals - for export, as was prescribed by the traditional free trade model.[42]

The ISI option thus gained popularity and was embraced by many developing countries throughout Latin America and the Caribbean as an alternative to the export of primary products.

---

[39] Lindert, *International Economics*, 255.

[40] Dominick Salvatore, "International Trade Policies, Industrialization and Economic Development," *International Trade in the 20th Century*, ed. K. Fatemi (Tarrytown, N.Y.: Elsevier Science Inc., 1997), 249.

[41] Ibid.

[42] Ibid.

The ISI Model Adopted by Developing Countries in the Late 1960s as a Model for Development

Prebisch had advocated a model of development based on ISI, where developing countries would initially substitute domestic production for previously imported consumer goods.[43] In this first stage of ISI, the countries concentrated on simple, labor-intensive consumer goods, such as clothing, shoes, radios, bicycles, and other household goods.[44] The second stage of this development model was designed so that domestic product would replace a wider range of more advanced manufactured items. Therefore, imports of intermediate goods such as steel and petrochemicals, as well as producer and consumer durables which are capital intensive and require large economies of scale, were substituted by domestic production. These goods however, do not create employment. Replacing imports of these products with domestic production also required much higher protection and generally led to much greater inefficiencies.[45] An integral part of this inward looking strategy that was aimed at developing a modern industrial sector, was the protection of the new infant industries through high tariffs and quotas, government planning and other direct incentives which, when combined, had a very strong anti-export bias effect.[46]

---

[43] Oman and Wignaraja, *The Post War Evolution* , 77.

[44] Salvatore, "International Trade Policies," 250.

[45] Ibid.

[46] Oman and Wignaraja, *The Post War Evolution*, 77.

ISI strategy had both political and economic appeals for developing countries. It was felt that producing domestic goods to replace imports could reduce the balance of payments, and also lead to industrialization. Politicians were also able to utilize the process of granting licenses to trade in certain imports to reward political allies and punish foes.[47] Another political appeal was based on the nationalistic political environment at the time, particularly throughout the countries of Latin America.

As advocates of the free trade model attacked this newly embraced strategy by many developing countries, ISI proponents countered that the leading industrial countries at one time also utilized a form of this model during a phase of their industrialization process, citing as examples the cases of the United States and Japan. They pointed out that the U.S. practiced ISI from the Civil War until the end of World War II, after which time most American firms no longer needed protection against imports.[48] In the case of Japan, the country embarked on its path to becoming the world leader in steel, automobiles and electronics beginning in the 1950s, by employing heavy government protection against imports.[49]

By the late 1970s and early 1980s, the verdict on ISI was beginning to be recorded throughout the world. The ISI strategy, promising much, seemed to be an overall failure. Various reasons were advanced for the less than sterling performance of the program. It was argued that that ISI industries became overly secure as a result of

---

[47] Herrick and Kindleberger, *Economic Development*, 423.

[48] Lindert, *International Economics*, 269.

[49] Ibid.

the protective tariff walls and immune from competitive pressures, enabling them to remain inefficient in both cost and production.[50]

Inefficient domestic industries were spawned resulting in high prices for the domestic consumers. Many infant industries were afforded unusually high levels of protection which caused them to become overly capital intensive with relatively little labor absorption.[51] In these countries where there is an abundance of labor, this situation served to aggravate the problem of unemployment. In many countries, overurbanization became a serious problem as thousands of agricultural and rural workers migrated to the cities in search of jobs in these newly emerging industries. However, since these factories were geared to be more capital than labor intensive, mass unemployment in the cities resulted, often giving rise to deteriorating living and health conditions and in some cases, escalating into explosive social situations.

The efforts to industrialize through ISI also led in many cases to the neglect of agriculture and other primary sectors, resulting in the decline of earnings from traditional exports. Various developing countries, for example Brazil, which embarked on a very aggressive ISI policy, were forced to begin importing food products which they had previously exported.[52]

---

[50] Todaro, Economic Development, 494.

[51] Salvatore, "International Trade Policies," 250.

[52] Ibid., 251.

Another problem associated with the ISI policy was the overvaluation of domestic currency. This only served to encourage imports while discouraging exports, and often resulted in a chronic shortage of foreign exchange aggravating the balance of payment problems. To address the lack of foreign exchange resources, governments turned to a policy of rationing which not only favored the importation of machinery and other required inputs such as fuel, food and other raw materials, but also led to black markets, corruption and greater efficiencies. [53]

It was further argued that one of the main reasons why the ISI strategy failed was due to the fact that the main beneficiaries of the process were the foreign firms that were able to circumvent the tariff walls and take advantage of liberal tax and investment incentives.[54] Part of the ISI strategy involved the governments subsidizing the importation of capital goods and intermediate products by foreign and domestic companies.[55]

Developing countries that focused on import substitution, for example many in Latin America and Africa, were seen to have fared worse than those which followed an export oriented policy, as the ones in Asia.[56] By the mid 1980s, the inward looking strategy of import substitution was being blamed for creating dual economies, negatively impacting the agricultural sector, worsening the balance of payments deficits, and

---

[53] Ibid.

[54] Todaro, *Economic Development*, 494.

[55] Ibid., 495.

[56] Ibid.

causing rapid urban growth with accompanying political instability in many countries.[57] Neoclassical theorists indicated that ISI had interfered with the natural process of economic development based on comparative advantage.[58] The disenchantment with the ISI strategy and the failure of the Soviet system as an alternative model, led to the resurgence of the neo-classical approach as the dominant school of development beginning from the 1980s onwards,[59] with an emphasis on export promotion as the strategy to development.

Export Promotion: Another Option to Promote Third World Development

The export led strategy adopted by most of the developing countries that began abandoning the failed ISI model, focused on new exports of manufactured goods to the industrialized countries.[60] Advocates of export promotion of both primary and manufactured goods, espouse the benefits of this policy by citing the efficiency and the growth benefits of a free trade policy and its resulting competitive tendencies. They also emphasize the importance of and gains from substituting large world market for small domestic ones.[61] "The distorting price and cost effects of protection, and the tremendous success of the East-Asian export-oriented economies of South Korea, Taiwan, Singapore

---

[57] Abigail B. Bakan, David Cox, and Colin Leys, eds., *Imperial Power and Regional Trade: The Caribbean Basin Initiative* (Ontario: Wilfrid Laurier University Press, 1993), 84.

[58] Oman and Wignaraja, *The Post War Evolution*, 67.

[59] Ibid.

[60] Lindert, *International Economics*, 272.

[61] Todaro, *Economic Development*, 485.

and Hong Kong" (which to a large extent outperformed the followers of the ISI model) were also evidenced as reasons why this strategy was highly recommended.[62]

This newly adopted strategy involved replacing quantitative restrictions with tariffs, reducing and simplifying import tariffs and import taxation, reducing impediments to exports, as well as eliminating or reducing currency over-valuation.[63] These measures were geared to stimulate economies of scale, and serve as a catalyst for the flow of investment and advanced technology from abroad.[64] This shift to export led promotion was part of the trade reform process that neoclassical theorists urged developing countries to adopt and stick with following their experimentation with ISI. In the neoclassical analysis, protection of industries has a minimal role as an instrument for promoting economic development. The view is that import competition "disciplines" domestic producers, forcing them to improve their efficiency performance, and "results in the contraction of inefficient sectors and the expansion of new efficient ones."[65]

The lowering of tariff barriers would also serve to shift incentives in production towards tradables and exports and in the process lead to an improvement in the way resources are allocated.[66] P.M. Romer explains this strategy for development in his Endogenous Growth Theory which calls for trade liberalization rather than trade

---

[62] Ibid.

[63] Salvatore, "International Trade Policies," 252.

[64] Ibid.

[65] Kirkpatrick, "Does Trade Liberalization", 34.

[66] Ibid.

restrictions.[67] The Endogenous Growth Theory explains the relationship between international trade and long-run economic growth and development by advancing that lowering trade barriers will speed up the rate of economic growth and development in the long run.[68] The theory further asserts that developing countries will be able to absorb technology developed in advanced nations at a faster rate than if they had a lower degree of openness, and the benefits that could be received from research and development would be greatly increased.[69]

It has been acknowledged by traditional trade theory that the late-comers and successors in the process of development and industrialization will have the advantage in that they can learn from the experiences, successes as well failures, and mistakes of the more industrialized nations. They believe that today's non-industrialized nations have a constantly growing store of technological know-how that they can benefit from.[70]

Romer explains that this type of trade system will generate larger economies of scale in production, and will reduce price distortions which will result in a more efficient use of domestic resources across sectors.[71] Other benefits from the process include a greater specialization and more efficiency in the production and use of intermediate

---

[67] P. M. Romer, "New Goods, Old Theory, and the Welfare Costs of Trade Restrictions," *Journal of Development Economics* 43, no.1 (February, 1994).

[68] Salvatore, "International Trade Policies," 255.

[69] Ibid.

[70] Haberler, "International Trade and Development," 109 - 110.

[71] Salvatore, "International Trade Policies," 255.

inputs, which will subsequently result in a more rapid introduction of new goods and services.[72]

Export led promotion policies and strategies have thus been increasingly adopted as the model to be followed by developing countries. However, the course has not been without roadblocks for the small exporting countries. Industrial nations have not fully accommodated the efforts of developing countries with smaller economies to raise their exports. The larger economies have used non-tariff barriers on a greater percentage of goods coming from developing countries than on those coming from other industrial nations.[73] It is also worthwhile to note that the highest tariff rates which are applied, are on products in which the developing countries enjoy the most comparative advantage as are the cases with textiles, apparel and footwear.[74]

These type of practices contributed to the developing countries' campaign for a "new international economic order" (NIEO), an effort which formally began at the June 1974 General Assembly of the United Nations. The NIEO encompassed a number of issues including international agreements to raise and stabilize primary product prices, greater ease in technology transfer, and easier access to the markets of the larger economies for manufactured goods from the smaller nations.[75] Another important initiative that was taken by the smaller developing countries was the call for the

---

[72] Ibid.

[73] Lindert, "International Economics," 272.

[74] Ibid.

[75] Ibid., 275.

preferential arrangements, which these nations had established bilaterally with their industrialized trading partners, to become a formalized part of the global international trading system, as those that had been recognized in GATT.

Preferential Arrangements or Special and Differential Treatment: Is It Necessary for Small Developing Economies?

Since the early 1960s when most of the former colonies began gaining their independence from European nations, the issue concerning special and differential treatment has been at the forefront of discussions concerning how foreign trade can be a more effective instrument of development. The push by these developing countries for preferences from the industrialized countries escalated at the first United Nations Conference on Trade and Development (UNCTAD) in Geneva in 1964, when a group of developing countries stressed the need for more equitable treatment in international trade. Developing countries advocated preferential treatment for exports of their products to more advanced countries as a matter of justice and equity - that countries of unequal levels of development cannot be treated in the same manner.

The idea of establishing a global framework of trade preferences and other trade promoting measures to facilitate the expansion of trade among developing countries had as its objective "promoting the development of national production and mutual trade".[76] It is felt that such arrangements will quicken industrialization by offering the Least Developed Countries (LDCs) "the near equivalent of a protected infant industry market in

---

[76] Nassau Adams, "Towards a Global System of Trade Preferences Among Developing Countries," *International Trade and Third World Development*, ed. Pradip K. Ghosh (Westport, CT.: Greenwood Press, 1984), 57.

the North , as well as the possibility of economies of scale in production arising from the size of the market."[77] The LDCs considered the principle of nondiscrimination or most-favored nation treatment in international trade as unfair and inequitable.

Special and differential arrangements, however, had been in existence for many years dating back to the imperial preference system among countries such as those of the former British Empire, the French Union, the Netherlands, Belgium and the U.S. and their colonies or dependencies.[78] These arrangements were part of the global trading system that emerged in the latter part of the 1940s in an effort to design a new international trading system after World War II.[79] They were also incorporated into the European Free Trade Association (EFTA) with regard to Portugal, in the European Community with respect to some Mediterranean countries. In the case of France, for example, as its associated overseas territories or colonies began gaining political independence during the early 1960s, their unique trading arrangements with France included these type of arrangements and were formalized in the Yaounde Convention.[80]

Thus preferential arrangements have been an important element of trade relations not only between industrialized and poor countries, but also among developing countries themselves, for example in various African integration schemes, and among members of

---

[77] Pincus, *Trade, Aid and Development,* 198.

[78] Ibid., 7.

[79] OAS Trade Unit, "Small and Relative Less Developed Economies and Western Hemisphere Integration" (n.p., April 1997): 24.

[80] Richard Pomfret, *The Economics of Regional Trading Arrangement* (Oxford: Clarnedon Press, 1997), 95.

most integration groupings[81] as in those throughout Latin America and the Caribbean. These two types of preferential systems - between industrialized and developing countries, and among developing countries - encompass respectively preferences by industrialized countries to developing economies on a non-reciprocal basis,[82] customs unions and free trade areas which offer duty free entry to members only.

By the 1960s, the call for preferences and special and differential treatment in trade took on a new dimension. The newly independent countries began to assign to trade a special role in the process of development for themselves. Preferential treatment as promoted by the developing nations was presented as a means of assisting these countries to "catch up" with the advanced nations by expanding their exports and thus increasing earnings. The arrangements were also presented as a way of enabling them to establish infant industries by giving the preferential access to larger markets so that economies of scale could be achieved.[83] The less developed countries sought nonreciprocity in trade negotiations, and preferences for their manufactured, semimanufactured, processed and semiprocessed goods.[84]

Through the advocacy of the developing nations, a system of trade preferences and special and differential treatment was incorporated into the GATT under the General

---

[81] OAS Trade Unit, "Special and Differential Treatment in International Trade," Submitted to the FTAA Working Group on Smaller Economies (n.p., November 17, 1995): 2.

[82] Pincus, *Trade, Aid and Development*, 197.

[83] Ibid.

[84] Sidney Weintraub, *NAFTA at Three: A Progress Report* (Washington, D.C.: The Center for Strategic and International Studies, 1997), 7.

System of Preferences (GSP) and approved by consensus during the United Nations Commission on Trade and Development II (UNCTAD) held in New Delhi in 1968. It "constituted the most important application of differential treatment in international trade."[85] Until 1979, these arrangements were considered to be deviations from the most-favored-nation norm, but with the adoption of the Enabling Clause during the Tokyo Round of negotiations, a legal basis for preferential treatment was established within GATT.[86]

The basic principles governing the GSP are that it is generalized, being applied by all preference-giving countries to all developing countries; that it is non-discriminatory with all developing countries being covered and treated equally under the schemes; and that it is non-reciprocal, meaning that beneficiaries are not required to give corresponding concessions in exchange for being granted GSP beneficiary status.[87]

The preferential arrangements between developed and developing countries are mainly of two types: 1) those that provide special protection to the developing countries' markets, and 2) those that give special access to the markets of the developed countries. Non-reciprocity of tariff negotiations belong under the first category. The second group encompasses the various schemes implemented by the advanced countries to provide beneficiary developing nations with duty-free or preferential access to the former's

---

[85] OAS, "Special and Differential Treatment in International Trade," 47.

[86] OAS Trade Unit, "Small and Relatively Less Developed Economies and Western Hemisphere Integration," 24.

[87] OAS, "Special and Differential Treatment in International Trade," 48.

markets. Examples of some of these arrangements are the GSP, the Caribbean Basin Initiative (CBI), CARIBCAN, and the Lome Conventions.[88] The basic idea of these schemes is that products from developing countries that are imported into an industrialized nation will be subject to a tariff or quota rate by the importing country that is less than the rate applied to products from countries other than beneficiary developing nations.[89]

In recent years, there is a growing sentiment that preferential arrangements may not have been totally beneficial to the countries they were intended to assist.[90] It has been suggested that the programs perpetuate undesirable policies and more importantly, foster a high degree of non-competitiveness in some exports of developing countries depriving them of the ability to compete on the open market with similar exports from other developing and industrialized countries. Proponents who do not want to see the dismantling of these arrangements continue to assert that they are the only way that developing countries will obtain relatively free access to the world's major markets, particularly since these poor nations have little bargaining power in reciprocal negotiations.[91] Another argument to retain the arrangement is based on the benefit that

---

[88] OAS Trade Unit, "Small and Relatively Less Developed Economies and Western Hemisphere Integration," 24.

[89]OAS, "Special and Differential Treatment in International Trade," 2.

[90] Pincus, *Trade, Aid and Development*, 198.

[91] J. Michael Finger and L. Alan Winters, "What Can the WTO Do for Developing Countries," *The WTO as an International Organization*, ed. Anne O. Krueger (Chicago: The University of Chicago Press, 1998), 385.

industrialized countries receive from the schemes. Since preferences are geared to boost foreign exchange earnings by developing countries, they will subsequently lead to increased imports from industrialized countries.[92]

The proponents also suggest that preferential arrangements serve to nurture export consciousness in the developing nations which subsequently enable them to better utilize existing resources and seek to attract foreign investment.[93] Preferences from the North to the South are also considered to be an alternative means of resource transfer or aid.[94] As stated by Pomfret:

> . . . the income transfer involved in making price concessions to the South is small but is more acceptable politically to donor and recipient than the equivalent foreign aid subsidy. . .[95]

Although in recent years proponents have been mounting a serious case for the continuance of these arrangements suggesting that any device to encourage export promotion is desirable[96], most of them are resigned to the possibility that the arrangements have a slim chance of retaining the form in which they presently are carried out, particularly in this era of trade liberalization. Advocates of trade liberalization point to the undesirable features of preferential arrangements as the rationale for their discontinuance, suggesting among other things that the arrangements, instead of

---

[92] Weintraub, *NAFTA at Three*, 203.

[93] Pincus, *Trade, Aid and Development*, 217.

[94] Weintraub, *NAFTA at Three*, 101.

[95] Pincus. *Trade, Aid and Development*, 198.

[96] Ibid.

improving North-South relations, would only serve to exacerbate them.[97] They claim that these special and differential treatment foster inefficient resource allocation in developing countries [98] and also discriminate against some LDCs. This is an ongoing debate in trade negotiations between industrialized and developing countries.

In "What Can the WTO Do For Developing Countries," the authors offer several reasons why these arrangements should be discontinued. They argue that preferences transfer to developing countries the "production distortions inherent in developed countries' tariff structures," that is they permit and even encourage producers to maintain costs above those of the nonpreferred competitors.[99] In addition, they attack the prevailing GSP schemes as being so wrapped up with exclusions, quantitative limits and rules of origin, that they have only limited coverage, while the excluded imports which include products such as clothing, footwear and leather, are typically the most important items from the point of view of development purposes. The programs viewed in this way, thus have the effect of diverting resources away from these products.[100]

Another argument against preferential arrangements that is proffered is based on the fact that many preferential schemes are unilateral and can therefore be withdrawn at any time by the granting industrial country. This uncertainty, the authors claim, encourages a level of "short-termism" on the part of entrepreneurs, whose decisions are

---

[97] Ibid.

[98] Ibid.

[99] Finger and Winters, "What Can the WTO Do," 385.

[100] Ibid.

likely to be based on the quick fix rather than on the long term, and therefore hinder both business and governments from focusing on more long-term, productive activities.[101]

Preferential arrangements are also criticized on grounds of creating obstacles for furthering trade liberalization.[102] Finger and Winters argue that beneficiary countries in trying to maintain preferences, are discouraged from investing in rounds of negotiated trade liberalization and do not undertake effective efforts to be integrated into the world economy. They criticize the programs for exacerbating the difficulties of pursuing satisfactory policies in the developing countries and for these reasons, they insist that preferential arrangements should be "phased out as soon as possible."[103] Other reasons given for ending this system of preferences include the belief that it creates a type of economic dependence on northern concessions, that it is also an inferior way to grant aid, and that it leads to an inequitable distribution of aid costs.[104]

Conclusion

Developing countries are increasingly coming to grips with the reality that the protected markets they once had access to in industrial countries, may no longer be available to them in this new century, nor would the foreign exchange that accrued to them from the preferential arrangement which provided a safety net, be assured. Preferential arrangements could provide a breathing room that would enable them to

---

[101] Ibid.

[102] Pincus, *Trade, Aid and Development*, 198.

[103] Finger and Winters, "What Can the WTO Do," 390.

[104] Pincus, *Trade, Aid and Development*, 198.

develop alternative strategies geared to developing their competitiveness in the open market.

On the other hand, if developing countries choose to be overly complacent and continue to rely on these arrangements as the backbone of their development strategies without exploring new ways of conducting trade, then their future would be unpromising. The evidence that has been provided so far is that the free trade model is the one that is durable and that has proven to be credible for most developed countries. Developing countries now moreso than in previous decades, seem to have very few other options to exercise than to embrace the free trade model in their quest for attaining economic development.

CHAPTER 3

THE CARIBBEAN COMMUNITY (CARICOM): TRADE PATTERNS AND MAJOR CHALLENGES FOR THE TWENTY- FIRST CENTURY

Background

The Caribbean Community (CARICOM) can be considered as a sub-region of the Caribbean Basin and includes the islands of Antigua and Barbuda, the Bahamas, Barbados, Dominica, Grenada, Jamaica, Montserrat, St.Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago, Haiti, the South American mainland territories of Guyana and Suriname, and the Central American nation of Belize. These economies vary significantly in terms of economic size, levels of development, patterns of trade, and the degree of trade dependence on their major trading partners, the United States, The European Union and Canada. At the same time, their economies are to a large extent highly undiversified, making them extremely vulnerable to external market conditions. Because of their geographic size and location, they are also easily affected by environmental disasters such as hurricanes and floods.

CARICOM countries, like the majority of developing nations, found themselves in a state of economic decline in the 1980s, after periods of marked sustained growth in the 1960s through the 1970s. During the 1960s the countries enjoyed increased standards of living, and favorable market conditions for their main exports. During this time, the world economy and the industrialized nations also experienced strong economic growth. With the onset of the 1970s, a combination of internal economic management problems and a series of unfavorable external events in the world economy affected the countries' export and import prices. These events culminated in a significant slowdown in economic growth, particularly in countries such as Jamaica, after the mid 1970s.[1] In addition to the reduced demand for, and the decline in the prices of export commodities, the oil shocks of the late 70s and early 80s, and the inappropriate response by governments in the region to these external developments, further accelerated and exacerbated the economic slowdown.[2] By the early 1980s, Caribbean governments placed a high emphasis on agricultural diversification as one of the region's best hope for achieving economic growth.[3]

The 1980s saw little improvement for these countries and in most cases, the situation worsened. Gross Domestic Product (GDP) per capita at the end of the 1980s was lower than it was in the late 1970s in some of these countries, and real per capita income lower in 1988 than in 1980.[4] The governments responded to the severe balance

---

[1] Richard Bernal, "Influencing U.S. Policy Toward the Caribbean: A Post Cold War Strategy," *The Caribbean: New Dynamics in Trade and Political Economy*, ed. Anthony T. Bryan (Miami: The University of Miami North-South Center, 1995), 211.

[2] Devanand J. Ramnarine, " The Philosophy and Developmental Prospects of the CBI," *Imperial Power and Regional Trade: The Caribbean Basin Initiative*, eds. Abigail B. Bakan, David Cox, and Colin Leys (Ontario: Wilfrid Laurier University Press, 1993), 82.

[3] Kathy McAfee, *Storm Signals: Structural Adjustment and Development Alternatives in the Caribbean* (Boston: South End Press, 1991), 23.

[4] Ibid.

of payments crises with stabilization measures which substantially reduced import capacity, and which in turn led to a reduction in growth and export production.[5]

While fifteen Caribbean countries exported more commodities in 1986 than they did in 1980, earnings increased in only five of them because of the drop in world market prices for their exports.[6] Prices for most Caribbean commodity exports continued to fall during the years 1987 - 1990, contributing to a widening gap between the countries' expenditures on imports and their earnings from exports.[7]

As inflation rates soared and real interest rates increased, the shortage of foreign exchange worsened, and the countries were forced to depreciate their currencies. One of the factors that contributed to the worsening situation was the servicing of the external debt at the same time that private investment and aid flows were being reduced. The debt to service ratio, which is the share of foreign exchange earnings from exports of goods and services required for debt payment, continued to increase during this period and stifled economic growth. The debt of the Caribbean region as a whole more than doubled from approximately $6.1 billion in 1980 to $14.3 billion in 1988.[8]

By the early 1990s, the Caribbean economies were burdened with a combination of sluggish growth, weak balances of payments, relatively high unemployment, and underemployment. The governments embarked on a number of macroeconomic

---

[5] Bernal, "Influencing U.S. Policy," 211.

[6] McAfee, *Storm Signals*, 21.

[7] Ibid.

[8] Bernal, "Influencing U.S. Policy," 212.

measures such as trade liberalization, investment promotion, debt reduction, privatization and fiscal self reliance.[9] In addition, they increased their efforts to encourage nontraditional exports such as textiles and winter vegetables, and to expand the regional tourist industry.[10] These structural adjustment reforms and macroeconomic policies carried out by the governments were not altogether willingly implemented, but in most cases were necessitated by the global economic environment, including the stipulation by international and financial institutions as a condition of their assistance.[11]

Characteristics of CARICOM Economies

One characteristic feature of the CARICOM economies has been their traditional dependence on a limited number of agricultural and industrial commodities, and their heavy reliance on one or two metropolitan countries for their economic and financial survival. Britain, which had been the main trading partner for most of the islands for much of the twentieth century, began to lose ground to the United States in the aftermath of World War II, particularly with the four larger economies of Trinidad and Tobago, Jamaica, Barbados and Guyana. This shift in trading relations was accelerated during the 1960s as large amounts of U.S. investments were channeled into certain sectors in the region.[12]

---

[9] Dennis Gayle, "The Evolving Caribbean Business Environment, " *The Caribbean: New Dynamics in Trade and Political Economy*, ed. Anthony T. Bryan (Miami: University of Miami North-South Center, 1995), 139.

[10] Ibid.

[11] Bryan, "Coping with the New Dynamics," 246.

[12] Ransford Palmer, "Caribbean Dependence on the United States Economy," *The Repositioning of US-Caribbean Relations in the New World Order*, ed. Ransford Palmer (N.Y.: Praeger Publishers, 1997): 1.

CARICOM countries have traditionally exported agricultural and mineral products to their industrialized trading partners, with these exports making up a significant portion of foreign exchange earnings. The agricultural sector is still the most economically important to the majority of the smaller islands, which depend on exports such as bananas, cocoa, nutmeg, mace and winter vegetables for a significant part of their foreign exchange earnings. In the Organization of Eastern Caribbean States (OECS), a subgroup of most of the smaller economies within CARICOM, bananas which enjoy preferential arrangements in the European market, continue to be one of the major foreign exchange earnings, particularly for Dominica and St. Lucia, and to a lesser extent, Grenada and St. Vincent. Sugar, which had once been a major export from the Caribbean, has continued to decline in overall output, employment, and profitability and as a major source of foreign exchange earnings for the region. Although traditional agricultural exports still account for a significant part of total U.S. imports from the Caribbean, light manufactures are beginning to have an increasing share of U.S. imports from the area and are the fastest growing sector for new investments.[13]

U.S. multinationals began investing heavily in the mineral industries in CARICOM during the 1960s expanding the mineral output in the region and contributing

---

[13] Elena M. Suarez, "The Caribbean in Economic Transition," *Choices and Change: Reflections on the Caribbean*, ed. Winston C. Dookeran (Washington, D.C.: Interamerican Development Bank, 1996): 126.

to the dramatic growth of Caribbean trade with the U.S. This helped to make the U.S. the most important trading partner for the region, particularly for the larger economies of Trinidad and Tobago, and Jamaica, which had substantial mineral industries. In Trinidad and Tobago, petroleum and petroleum products account for about 60 to 70% of exports.[14]

Another source of income, in some cases, the leading source, for CARICOM countries is tourism. Since the 1980s, this sector has grown to a level of great significance for both the smaller and larger economies accounting for 26% of the region's GDP by 1993.[15] By 1990, the industry generated and provided employment for over 400,000 people. In 1993, earnings from tourism amounted to $950 million for Jamaica, which represented a 10% increase over 1992. In Antigua and Barbuda, the sector accounted for over 70% of total receipts, and in the Bahamas and Barbados each for more than 50% of receipts in the early 1990s.[16] Many Caribbean countries consider the development of the tourist industry as a viable alternative to some agricultural exports as a means of generating foreign exchange.

The import substitution policy implemented by the Caribbean economies in the 1970s gave rise to a manufacturing sector. In their efforts to diversify also, many CARICOM states began moving away from agriculturally based monocultures and venturing into the export market for manufactured goods. The manufacturing sector in

---

[14] Ramesh Ramsaran. "Challenges to Caribbean Economic Development in the 1990s," in *The Caribbean: New Dynamics in Trade and Political Economy*, 15.

[15] Gayle, "The Evolving Caribbean," 139.

[16] Ibid., 144.

the CARICOM nations also received a boost from the countries' attempts to increase the production of non-traditional exports, and to take advantage of preferential trade regimes such as the Caribbean Basin Initiative.[17]

The Manufacturing Sector

The manufacturing sector in CARICOM is composed of two segments - one producing for the local and regional market, and the other usually operating in "enclave-type free zones intended for assembling component parts of goods," which are reexported mainly to the U.S.[18] This sector was developed as a result of the encouragement and incentives provided to foreign investors to engage in production for both the local and export markets.[19] Many CARICOM countries such as Barbados, Jamaica and Trinidad, in an effort to attract foreign investment, established free trade zones (FTZs), also called export processing zones (EPZs), that are not subject to the same taxes, tariffs and regulations that apply to factories outside the zones.[20] They are provided with tax holidays of up to 20 years on profits, exemption from import licensing and duties on goods imported for use within the zone and from taxes on stock dividends. They are also allowed to repatriate profits of up to the amount of the original investment.[21]

---

[17] George P Montalvan, *Promoting Investment and Exports in the Caribbean Basin: Papers and Proceedings* (Washington, DC: General Secretariat, OAS, 1989), 32.

[18] Irma Tirado de Alonso, ed., *Trade Issues in the Caribbean* (Philadelphia: Gordon and Breach Science Publishers, 1992), 7.

[19] Ibid.

[20] McAfee, *Storm Signals*, 84.

[21] Gayle, "The Evolving Caribbean," 139.

In addition, they are provided with factory shells and utilities at rates below their actual costs.[22]

These EPZs have emerged on account of a dual need by both the developing countries and manufacturers in the industrialized nations - by the former to increase their earnings from exports and by the latter to reduce their costs of production.[23] Exports from these zones receive preferential treatment not only in the local country where production takes place, but also in the destination country, which is, in the majority of the cases. the United States.[24]

With its crucial need for foreign exchange, its close proximity to the U.S., and its cheaper labor costs than in the U.S., the Caribbean is considered as an ideal location for the establishment of these EPZs.[25] These factory enclaves which are highly labor intensive and export oriented, are promoted in the Caribbean as a strategy to expand employment. They are usually set up in urban areas and tend to hire primarily unskilled and semi-skilled production workers. They have been a growing source of employment particularly among young women between the ages of 16 - 25.[26] In some countries as in Barbados and Haiti, tax incentives, cash grants or other subsidies are offered to assembly

---

[22] McAfee, *Storm Signals*, 84.

[23] Tirado de Alonso, *Trade Issues in the Caribbean*, 9.

[24] UNECLAC, Caribbean Development and Cooperation Committee, "The Caribbean and the Outcome of the Uruguay Round in the Context of NAFTA and FTAA, " 16th Session of the CDCC (St. John's. Antigua and Barbuda: n.p., 1996), 12.

[25] Tirado de Alonzo, *Trade Issues in the Caribbean*, 9.

[26] Ibid.

operations that provide professional education and worker training programs to their employees.[27]

Table 3.1 gives an indication of the significance of EPZs as a source of employment in some countries in selected years:

TABLE 3.1

EPZs as a Source of Employment in Selected CARICOM Countries

Country	Labor Force in 1988	Employment in EPZs and other offshore manufacturing operations 1975	1986	1989
St. Vincent	45,000	n/a	844	2,740
Barbados	113,200	3,000	6,865	8,718
Montserrat	5,100	n/a	200	n/a
Jamaica	1,100,000	6,100	8,000	18,000
Belize	49,000	n/a	200	1,060
St. Lucia	54,000	3,500	n/a	2,780
Dominica	35,000	n/a	200	880

Source: U.S. Dept. of Labor, Bureau of International Labor Affairs, *ILO Yearbook of Labor Statistics 1989 - 1990* (Washington, D.C.: ILO, 1990).

In Barbados, assembly operations accounted for about 3,000 jobs and provided over 20% of employment in the manufacturing sector in 1975. However, by 1986, the number had more than doubled to 6,865 jobs which made up over 60% of employment in manufacturing. By 1984, women made up 94% of the workforce in this sector.[28] Export assembly activities in Dominica reportedly employed 850 workers out of a total labor

[27] Gregory K. Schoepfle and Jorge F. Perez-Lopez, "Export Oriented Assembly Operations in the Caribbean," *Trade Issues in the Caribbean*, 141.

[28] ILO, *Yearbook of Labor Statistics 1989 - 1990*, U.S. Dept. of Labor, Bureau of International Labor Affairs (1989).

force of about 35,000 to 40,000 in 1989;[29] in St. Lucia, the figure was 2,780 workers out of a total labor force of about 54,000;[30] and in Belize, 1,060 workers out of a total workforce of 58,000, the great majority of whom were women.[31]

In addition to direct employment, these assembly operations have also been credited with generating indirect employment from the purchase of local inputs and through the multiplier effect from local expenditures by assembly workers.[32] A study done by Dominican economists estimated that each direct job in assembly operations generate 1.5 indirect jobs in the economy at large. As a result, EPZs in the Dominican Republic in 1988, for example, generated 85,000 direct jobs and 127,500 indirect jobs for a total of 212,500 jobs.[33]

For a growing number of CARICOM countries, the manufacturing sector which includes the EPZs is becoming the main source of foreign exchange earnings for their economies. During the 1983 - 1989 period, manufactured goods particularly assembled products, accounted for an increasing share of these Caribbean nations' exports to the U.S., as their other major export sectors - agriculture, forestry, mining and minerals -

---

[29] Ibid.

[30] Ibid.

[31] Ibid.

[32] Tirado de Alonzo, *Trade Issues in the Caribbean*, 9

[33] Ibid.

have either grown less rapidly or contracted,[34] as is shown in the following table:

TABLE 3.2

Leading Primary Product Exports and the Value of Assembled Product Exports from Selected Caribbean Nations: 1983 - 1989 ($ Millions of U.S.)

Country	Leading Products	1983	1984	1985	Year 1986	1987	1988	1989
Barbados	Sugar	18.7	26.3	25.0	26.1	28.3	28.0	23.4
	Assembled Products	43.3	44.0	24.4	10.2	8.7	7.9	6.2
Belize	Sugar	34.2	32.5	22.9	31.5	27.0	35.0	n/a
	Citrus	6.8	9.8	12.1	11.1	15.5	17.7	n/a
	Assembled Products	1.7	4.1	4.0	3.8	4.0	4.8	3.6
Grenada	Nutmeg	2.9	2.1	4.2	9.7	14.6	n/a	n/a
	Cocoa	6.0	4.2	5.0	4.2	4.0	n/a	n/a
	Bananas	3.0	2.9	3.2	3.7	4.1	n/a	n/a
	Assembled Products	0.0	0.0	.1	0.0	.3	1.3	1.5
Jamaica	Alumina	337.1	333.0	208.1	210.8	199.8	243.1	436.9
	Bauxite	113.7	149.9	84.8	97.5	114.3	105.4	125.7
	Sugar	58.2	43.6	45.4	43.7	61.6	78.4	63.3
	Assembled Products	7.0	9.5	12.3	19.3	30.4	41.7	47.4
St. Kitts/ Nevis	Sugar	10.0	11.6	8.8	11.8	n/a	n/a	n/a
	Assembled Products	2.4	2.6	1.6	3.1	3.7	2.3	1.4
St. Lucia	Bananas	18.6	23.8	30.2	55.5	n/a	n/a	n/a
	Coconut Oil	2.1	2.4	1.2	.1	n/a	n/a	n/a
	Assembled Products	1.1	1.2	2.4	2.4	3.1	4.0	3.6
St. Vincent/ Grenadines	Bananas	11.0	11.9	16.9	19.4	n/a	n/a	n/a
	Assembled Products	1.8	.9	1.8	.9	1.4	.9	1.1

Source: IMF, *International Financial Statistics Yearbook*, 1990 (Washington, D.C.: 1990)

[34] ILO, *Yearbook of Labor Statistics* (1989 - 1990).

In some Caribbean countries, assembled product exports have displaced certain traditional commodity exports as the major sources of foreign exchange. In Haiti, St. Lucia, Antigua and Barbuda, and Montserrat, assembled products accounted for 50% or more of exports to the U.S. in 1987.[35] Manufacturing currently makes up a significant part of the economy in Antigua and Barbuda, Barbados, Jamaica, and Trinidad and Tobago. In fact, the main exporters of manufactured goods from CARICOM to both extra regional markets and those within the CARICOM are from Barbados, Jamaica, and Trinidad and Tobago. In 1975, manufacture's contribution to GDP was 16% for Jamaica, over 7% for Trinidad and Tobago, 5% for Guyana, and about 11% for Barbados.[36] By the mid 1980s the economies of these countries accounted for approximately 94% of the manufacturing GDP of the region.[37]

The principal manufacturing exports from the assembly plant operations in CARICOM have been assembled electronic components, textiles and apparels. Since 1983, about 90% of all imports under the U.S. Code 807.00 from the Caribbean region, have consisted of assembly apparel and electronic items.[38] For countries such as Jamaica, Belize, Grenada and St. Lucia, textiles and apparel are the principal component

---

[35] Tirado de Alonzo, *Trade Issues in the Caribbean,* 9.

[36] Palmer, "Caribbean Dependence," 1.

[37] Kempe Ronald Hope, *Economic Development in the Caribbean* (N.Y.: Praeger Publishers, 1986), 40.

[38] ILO, *Yearbook of Labor Statistics* (1989 - 1990).

of their manufactured exports.[39] Apparel accounts for 71% of Miami's imports from the Caribbean, with 90% of this apparel coming from the Dominican Republic and Jamaica.[40]

As certain non-assembly export oriented manufacturing activities such as food and primary metals have declined in relative importance, exports of assembled apparel have grown significantly.[41] For the Caribbean Basin as a whole, which includes the Central American nations, together with CARICOM nations, apparel and textile exports rapidly expanded accounting for $2 billion of the region's total $6.2 billion in exports to the U.S. in 1991.[42] In 1994, textiles and apparel exports increased to 1.58 million square meters equivalent, which represented a 16% rise in volume over that of 1993.[43] According to the Textile and Apparel Institute, an industry lobby located in Jamaica, earnings from exports in textile and apparel from the Caribbean Basin region during that period expanded 13% to $4.53 billion.[44] In 1994, the U.S. Department of Commerce reported that U.S. imports of textiles from the Caribbean Basin in that year increased by 12.7% compared with the previous year to $4.6 billion.

The increase in the U.S. demand for clothing has had a significant positive impact

---

[39] G.S.R. Associates, *Report on the North American Free Trade Agreement: Study Prepared for the CARICOM Secretariat: Implications for the CARICOM Regions and the Proposed Response* (Port-of-Spain, Trinidad:, n.d.), 49.

[40] Gayle, "The Evolving Caribbean," 137.

[41] ILO, *Yearbook of Labor Statistics*, 1989 - 1990 .

[42] Gayle, "The Evolving Caribbean," 146.

[43] Interpress Service, "Caribbean Textiles: Export Earnings Fail to Keep Pace with Volume" (n.p.: Global Information Network, March 1995).

[44] Ibid.

on the Caribbean in terms of export earnings. Between 1980 and 1986, U.S. imports from the world and the Caribbean grew at 17% and 18% per annum respectively.[45] By 1986, clothing accounted for over one third of the Caribbean's earnings from manufactured exports.[46] Most of the clothing imports from the Caribbean enter the U.S. under its 807 program, which exempts U.S. inputs in the finished product from tariffs.[47]

Not all Caribbean countries however, have benefited from the shift in production from traditional agricultural products to manufacturing exports. Although the growth of non-traditional exports in the manufacturing sector has been a great boost to earnings in some countries, in others, losses in foreign exchange earnings from declining commodity prices and reductions in U.S. sugar quotas have not been offset by these non-traditional exports. The manufacturing sector, in particular the assembly type operations, have been criticized for not creating more forward linkages, which are jobs associated with domestic distribution of assembled products.[48] The lack of linkages to other economic sectors means that the zones have little or no effect in creating additional jobs outside the export factories.[49] The work force is usually made up of low skilled workers with little

---

[45] The World Bank, "Caribbean Countries: Economic Situation, Regional Issues, and Capital Flows, " a World Bank Country Study (Washington, D.C.: 1988), 5.

[46] Ibid.

[47] Ibid.

[48] ILO, *Yearbook of Labor Statistics*, 1989 - 1990.

[49] McAfee, *Storm Signals*, 87.

training. Most of the jobs created in the industry are also temporary, and the skills learned by workers are typically not transferable to other productive activities.[50]

Other weaknesses identified by critics with the assembly type operations include their non-permanent feature. These plants tend to be leased factory shells where second hand machinery is utilized with most of the parts and components imported.[51] These features lend themselves to industries that are highly transient, with no deep investment roots established in the host country, and are therefore, free to move wherever lower production costs can be negotiated.[52]

These industries develop no deep commitment to the local economy. Countries playing host to these type of operations are therefore exposed to the risks of the companies withdrawing their investment at very short notice, and throwing the local economy into disarray. Despite these criticisms, a USAID memorandum on Caribbean development noted that "the countries that have benefited the most from the CBI are those that have established Free Trade Zones."[53]

One of the handful of Caribbean Basin countries that has made great progress in developing that sector is Honduras, which ranks 5th in worldwide assembly plant (also called maquila or maquiladora) exports to the U.S.[54] In Honduras, the private sector has

---

[50] Ibid.

[51] Ibid.

[52] Ibid.

[53] McAfee, *Storm Signals*, 87.

[54] Mercedes Cortazar, "Honduras Survives Mexican Competition," *Apparel Industry International*, November/December 1997, 1.

been very aggressive in pushing for the construction of industrial parks equipped with advanced technology and modern infrastructure that are attractive to foreign investors.[55] In addition, the Honduran authorities make deliberate efforts to keep bureaucracy in the free zones down to a minimum.

Internal transportation in Honduras has been efficient, and the country maintains a suitable Atlantic port, one of the best in the Caribbean/Central American region, Puerto Cortes, which the rest of the countries in Central America use. Other Central American countries find it easier to transport merchandise to Honduras for export. To the foreign investor, it makes economic and business sense to establish factories in Honduras, or in any other locale where the support from the local authorities and private sector exists, and where the local government facilitates a hassle free environment for doing business.

Caribbean Trade Relations: Need to Attract Foreign Investment

The CARICOM governments share a number of common goals regarding the development of their economies. It is generally recognized that among the most pressing concerns are the needs to achieve sustained economic growth and development and to create jobs for the region's growing young population. The economies are also constantly seeking alternative ways to increase exports and foreign exchange while reducing net capital outflows. Another major goal is to reduce their economic vulnerability through economic diversification.[56]

---

[55] Ibid.

[56] Montalvan, *Promoting Investment and Exports*, 94.

One of the major efforts that has been put forth by CARICOM governments to achieve these goals is the strategy to attract foreign investment to the region. The earliest interest of foreign investors in the islands centered around the plantation and mining sectors. This was followed by a major interest in tourism, then later the service and manufacturing sectors.[57]

A recent trends in foreign investment in the Caribbean Basin is the increasing growth and interest of Asian investors, particularly those from the Asian newly industrializing countries (NICS) of South Korea, Taiwan and Hong Kong. These investors are usually either with U.S. companies having Asian subsidiaries or subcontractors used to supply the U.S. market and elsewhere; or Asian owned companies producing for export to the U.S.[58] This growing interest for investment in the Caribbean Basin is spurred by the fact that both the U.S. and Asian countries are being faced with increasing costs of production and political pressures that threaten their competitiveness in, and (in the case of the Asian exporters) access to the U.S. market.[59]

In the Asian NICS, a combination of rising wages, loss of GSP status, and stronger currencies have all increased the costs of production, particularly in the type of labor-intensive assembly operations that are being established in the Caribbean Basin.[60] Moreover, there has been a growing protectionist attitude in the U.S. toward the Asian

---

[57] Ramesh Ramsaran, *U.S. Investment in Latin America and the Caribbean: Trends and Issues* (N.Y.: St. Martin Press, Inc., 1985), 139.

[58] Montalvan, *Promoting Investment and Exports*, 90 - 91.

[59] Ibid., 91.

[60] Ibid.

NICS, and locating their operations in the Caribbean may be a tactic to circumvent existing and potential trade barriers.[61]

Meanwhile, this trend is a good fit for the CARICOM growth strategy of attracting foreign investment. Foreign investment is considered to be not only a "non-debt-creating flow" for the region, but also a mechanism for gaining access to foreign markets and new technology.[62] CARICOM governments view foreign investment as a way to create jobs and increase export earnings, and to help fill the "capital gap" with which they are all faced.[63]

The CARICOM nations possess a number of attractive features that appeal to U.S. investors as a good place to do business. In addition to its close proximity to the U.S. market, the countries have reasonably priced labor and an educated and trainable workforce who in the majority share with the U.S. a common language, English.[64] However, this commonality of features can pose a challenge for the countries in that the CARICOM states produce more or less the same commodities and seek to attract the same foreign investors.[65] This feature may serve to foster stiff competition among them, to the disadvantage of the smaller, less developed members. This was one of the problems that the CARICOM leadership tried to address in ensuring that all participating

---

[61] Ibid.

[62] Ramesh Ramsaran, "Challenges to Caribbean Economic Development in the 1990s, " in *The Caribbean: New Dynamics in Trade and Political Economy,* 129.

[63] Montalvan, *Promoting Investment and Exports,* 92.

[64] Ibid., 105.

[65] Anthony Payne, "The New Politics of 'Caribbean America'," *Third World Quarterly* 19, no. 2 (1998) : 209.

members share equitably in the benefits of being in an integration bloc. As in groupings that consist of countries at different stages of development and infrastructural modernization, there is a tendency in CARICOM for foreign investment to be attracted to the more developed members of the group.[66] Although they incorporated provisions to prevent this from occurring, CARICOM states still found themselves competing with one another by offering increasingly generous incentives to foreign investors - incentives which proved to be self defeating in that they encouraged the use of capital intensive techniques which lessened the number of jobs that could have been created.[67]

In spite of the fact that CARICOM states offer many incentives to attract foreign investment, there still remains a plethora of obstacles to increasing and expanding production in the region. A series of surveys conducted by the U.S. Department of Commerce in the late 1980s of U.S. companies, revealed that the companies shared several concerns about investing in the region. Among these concerns were their ability to repatriate profits, the various levels of governmental bureaucracy they may have encountered, and the availability of sound infrastructure including such things as the reliability of utilities (electric power), and the communications system.[68] Companies are frequently confronted with delays in processing investor applications, administrative bottlenecks, interventions from government agencies, and other requirements and

---

[66] Ramsaran, *U.S. Investment in Latin America and the Caribbean,* 137.

[67] Ibid., 139.

[68] Montalvan, *Promoting Investment and Exports* 108.

problems related to taxation, exchange rates, currency convertibility, legal processes and banking regulations.[69]

Foreign direct investment in the CARICOM, and the Caribbean Basin as a whole, is often criticized for not being a catalyst to real development because of its bias towards the assembly type manufacturing operations. Business sectors that tend to benefit the host country with more permanent capital resources and the training of skilled workers such as information and technology areas, do not receive the type of incentives that the assembly type operations receive. This had led some to conclude that the type of foreign direct investment (FDI) that CARICOM receives could not lead to high productivity growth given the distorted incentive system.[70]

CARICOM Trade Relations with Extra-Regional Partners

The main trading partners for the CARICOM states are the United States, the European Union, and Canada. Most of the region's exports are marketed and exported to these industrialized countries under preferential arrangements namely the Caribbean Basin Initiative, the Lome Convention which up until early 2000 was replaced by the Partnership Agreement, and CARIBCAN respectively. Although these large markets provide non-reciprocal access for the exports from CARICOM, the economies' limited size and resources, the pervasiveness of non-tariff barriers particularly in non-traditional

---

[69] Suarez, "The Caribbean in Economic Transition," 133.

[70] Surath Rajapatirana, "The East Asian Experience and its Relevance to the Caribbean Within the NAFTA Environment, " Paper prepared for the Investment Conference organized by Development Finance Limited (Port of Spain, Trinidad and Tobago: March 1994), 16.

export areas in these large countries, make CARICOM incapable of exploiting these arrangements to the fullest.[71]

While the LDCs in CARICOM depend more on the EU for the bulk of the trade, their more developed counterparts rely on the U.S. as their most important trading partner, supplying the largest share of the value of the region's imports, and providing a market for the major part of U.S. exports.[72] CARICOM trade with the EU has increasingly been affected by the growing number of Southern European states being incorporated into the bloc and also by the general global trend towards reduction of trade barriers.[73] Another important feature that has buttressed the growing US/Caribbean trade relations is the changing production structure of Caribbean economies. Products such as tourism, oil, bauxite, offshore services, and assembly type manufactured products are sold mainly to North America displacing agricultural staples that had been previously exported to the United Kingdom.[74] In addition, the economic and political trends of the 1980s nudged the region to pursue a policy of export-led growth within the markets of the Americas and towards closer integration into the U.S. system.[75]

---

[71] DeLisle Worrell, "Caricom and the North American Free Trade Area," Paper prepared for the Overseas Development Council (n.p., February 1992), 9.

[72] Palmer, *Caribbean Dependence on the U.S. Economy*, 17.

[73] G.S.R. Associates, "Report on the North American Free Trade Agreement" (Port-of-Spain, Trinidad: n.d), 52.

[74] Worrel, "Caricom and the North American Free Trade Area," 2.

[75] Anthony Payne, "The New Politics of 'Caribbean America'," *Third World Quarterly* 19, no. 2 (1998): 209.

U.S.-Caribbean trade relations are also influenced by the large volume of U.S. private investment in the region, making the economies highly dependent and vulnerable on the U.S. which is now the region's principal source of foreign investment. This dependence is reflected by the dominance of raw materials and semiprocessed goods in the flow of trade from CARCOM states which are incapable of exerting any significant power in influencing the market prices.[76] U.S. multinational corporations' investments in CARICOM countries are in areas such as oil production and distribution, the hotel industry, information services, shipping, agricultural exports, semiprocessed manufactures, and bauxite production.[77]

By the early 90s, the U.S. provided about 60% of the tourists, purchased about 49% of merchandise exports, and supplied about 58% of CARICOM's imports.[78] CARICOM's exports to the U.S. amounted to $4.8 billion in 1990, an increase of about 24% from 1987.[79] At the same time, exports from the U.S. to the region grew even more rapidly to about $5.6 billion in 1990, a 33% increase from 1987.[80] This burgeoning trade relationship has also contributed to the Caribbean's status as being one of the few areas where the U.S. enjoys a favorable trade balance reflected in its trade surplus with the

---

[76] Ransford Palmer, "Caribbean Relations with the U.S. in the 21st Century, " *Caribbean Forum* 1, no. 1, issue 11 (Winter 1994) : 41.

[77] Ibid., 4.

[78] Worrell, "Caribbean and the North American Free Trade Area," 3.

[79] Bernal, "Influencing U.S. Policy Towards the Caribbean: A Post Cold War Strategy," 211.

[80] Ibid.

region.[81] Business America reported that in 1987, U.S. exports to the region increased almost 17% over 1983 figures, but during that same period, imports from the region declined.[82]

In recent years, U.S. investments in the manufacturing sector in the Caribbean have grown to overtake investments in other areas, with the U.S. also progressively overtaking Europe as a market for merchandise trade. Over half of these exports are to the U.S. market.[83] The growth in U.S. based manufactures engaging in offshore assembly operations in the Caribbean region stems from the implementation of several tariff provisions by the U.S. government which make it economically feasible for these investors. These special provisions allow for low duties on U.S. goods. Import duties are assessed only on the foreign value-added on products that are further processed or assembled abroad and which are made from materials or components produced in the U.S. These provisions have been a major stimulus for the growth of CARICOM's export manufacturing sector.[84] Formerly known as TS 806.30 and TS 807.00 in the Tariff Schedules of the U.S. (TSUS), and in effect since 1963, these special provisions are now referred to as Items 9802.00.60 and 9802.00.80 in the New Harmonized System nomenclature introduced in January 1989.[85] In addition, CARICOM countries also

---

[81] Gayle, "The Evolving Caribbean Business Environment," 137.

[82] *Business America* (April 25, 1988): 42 - 43.

[83] ILO, *Yearbook of Labor Statistics*, 1989 - 1990.

[84] Schoepfle and Perez-Lopez, "Export-Oriented Assembly Operations in the Caribbean," 132.

[85] Ibid.

enjoy access to the U.S. market through the General System of Preferences (GSP) provisions. Several CARICOM countries have also signed double taxation treaties with the U.S., with the goal of enticing more investment to the region.[86]

One industry that has benefited more than any other from these provisions in the region is the textile and apparel sector. Under the then 806 and 807 provisions, the U.S. granted special access to its market for textile/apparel imports from Caribbean Basin countries that use fabrics which are made and cut in the U.S. By the mid to late 1990s, textile and apparel products were the leading U.S. imports from the Caribbean region, [87] with other major exports being petroleum products, agricultural products such as bananas, coffee, sugar cane, cocoa, and aluminum ore products.[88] For certain CARICOM nations such as Antigua, Montserrat, St. Lucia, Haiti and Jamaica, products assembled from U.S. sourced components for export to the U.S. market represent a major portion of all products exported to the U.S.[89]

---

[86] Worrell, "Caricom and the North American Free Trade Area," 5.

[87] Suarez, "The Caribbean in Economic Transition," 126.

[88] America Wire Producers Association, "NAFTA Parity Analysis: The Caribbean Basin," *Wireline* 8, no.1 (June 1998): 1.

[89] Schoepfle and Perez-Lopez, "Export-Oriented Assembly," 132.

TABLE 3.3

Clothing Imports from CARICOM by U.S. for years 1992 and 1993: The Major Significant Exporters (US $000)

Country	Total Imports 1992	Total Imports 1993	Imports Under 807 1992	Imports Under 807 1993
Belize	18,083	19,907	14,142	15,169
Barbados	6,598	6,527	6,447	6,317
Guyana	4,489	5,632	3,656	5,030
Jamaica	293,334	389,002	218,222	314,098
St. Lucia	22,309	23,569	9,948	6,437
St.Kitts/Nevis	4,731	4,262	4,727	4,201

Source: Special Category Report Prepared for Embassy of Trinidad and Tobago by Trade Monitoring Service (Washington, D.C., June 2, 1994).

The manufacturing sector, including the textile and apparel industry, is not only important to these Caribbean exporters, but also to that industry within the U.S. Stephen Lamar, Government Relations Director for the American Apparel Manufacturers Association, recently reported that the U.S. apparel and related industries in many cases rely on partnerships with manufacturers in the Caribbean. The Association estimates that "15 apparel jobs in the U.S. are created by every 100 jobs in 807 (offshore) production in other industries." [90] Furthermore, by 1996, it was reported that Caribbean trade in products from the manufacturing sector supported more than 300,000 jobs in the U.S.[91] An official in the Jamaica's government investment promotion agency also supported

[90] "AAMA Official Testifies to Congress that Trade is Crucial to Rebuilding Countries Damaged by Hurricanes Mitch and Georges," available from *http://www.Onlinetextile news.com/news*; Internet; accessed March 29, 1999.

[91] Richard Bernal, "Changing Trade Trends Confronting the Caribbean," *CAIC Magazine* 1.1, no. 16 (4th Quarter, 1996): 1

this observation by suggesting that "for every US $100 exported by Caribbean export assembly industries, only US $20 remain in the Caribbean. and US $80 go to the U.S. industry.[92]

Although the textile/apparel sector and the overall manufacturing sector grew tremendously in the major CARICOM exporting countries of these products during the 1980s, certain global developments in the 1990s have threatened to curtail that growth and cause major problems for the economies that have developed a major dependence on the manufacturing industry. Preferential market access that were being enjoyed in the U.S. and European Union markets are increasingly being eroded with the implementation of NAFTA, the extension of U.S. trade preferences to the Andean nations, the expansion of the European Union, and the replacement of the Lome Conventions. Compounding these problems for CARICOM states is the aid fatigue syndrome which many industrialized countries face, particularly with the attention given to the former Eastern bloc nations' conversion to western style capitalism, and their intense efforts to restructure their economies and societies. Other areas that will detract resources and attention from the Caribbean region will be the ongoing issue of Middle East peace and security, and the unfolding relations with trading partners in Europe and the Far East.[93]

Another major occurrence that is already having quite an impact on developing countries including the CARICOM states is the completion and implementation of decisions reached at the Uruguay Round of trade negotiations including the establishment

---

[92] McAfee, *Storm Signals*, 87.

[93] Georges A. Fauriol, "U.S.-Caribbean Relations Into the 21st Century: Policy Papers on the Americas" (Washington, D.C: Center for Strategic and International Studies, 1995), 12.

of the World Trade Organization (WTO). These developments will provide major challenges to the CARICOM nations and the developing world as a whole, as these countries are faced with the challenge of making the transition from an environment in which they enjoyed special trade arrangements to one which is wholly governed by the principles of free trade and reciprocity.[94]

Major Challenges Facing CARICOM:

Outcome of the Uruguay Round and Establishment of the WTO

Up until the Uruguay Round of trade negotiations, many developing countries insisted on or aggressively sought special and differential treatment as an important part of their multilateral negotiations,[95] as a result of certain provisions in GATT which controlled international trade since its formation as part of the Bretton Woods System. Article XVIII of the 1947 GATT allowed developing countries to impose quantitative restrictions either for development purposes or for balance of payments reasons.[96] Part IV of the GATT on Trade and Development established the principle of non-reciprocity in trade negotiations between developed and developing countries, and provided for the former to adopt special measures to promote the expansion of imports from the latter.[97]

---

[94] Suarez, "The Caribbean in Economic Transition," 127.

[95] J. Michael Finger and L. Alan Winters, "What Can the WTO Do for Developing Countries?" *The WTO as an International Organization*, ed. Anne O Krueger (London: The University of Chicago Press), 369.

[96] Murray G. Smith, "Accession to the WTO: Key Strategic Issues," *The World Trading System: Challenges Ahead*, ed. Jeffrey J. Schott (Washington, D.C.: Institute for International Economics, December 1996), 175.

[97] World Trade Organization, *Regionalism and the World Trading System* (Geneva: WTO, April 1995), 15.

Additionally, the Enabling Clause emerged from the Tokyo Round and included a number of provisions which permitted GATT contracting parties to grant differential and more favorable treatment to developing countries, "notwithstanding the non-discrimination requirement of Article 1 of the General Agreement." [98]

This policy provided the legal framework for trade concessions granted to developing countries under the General System of Preferences (GSP), and also allowed such treatment to regional or global arrangements among developing countries for the reduction or elimination of tariffs and non-tariff measures.[99] These arrangements were specifically designed to facilitate and promote the trade of developing countries without raising barriers to or creating "undue difficulties for the trade of other contracting parties".[100] It was argued that since developing countries possessed little bargaining power in reciprocal negotiations, one of the few ways that they could obtain relatively free access to the world's major markets was by granting them these preferential arrangements.[101]

The Uruguay Round Agreements reduced the scope of the special and differential treatment that the GATT system had made allowance for to most developing countries and eroded GSP margins of preference.[102] The Agreement sought to promote global trade liberalization and strengthen the multilateral trading system through a number of

---

[98] Ibid., 18.

[99] Ibid.

[100] Ibid.

[101] Finger and Winters, "What Can the WTO Do," 385.

[102] Ibid., 384.

measures, including reductions in trade barriers in areas such as agriculture, textile and apparel. The Multifiber Agreement, which was signed as part of the negotiations and deals with textiles and clothing, specified that restrictive trade measures including Voluntary Exports Restraints (VERs), would be phased out.[103] Additionally, safeguard measures which were allowed under GATT were made more transparent and subjected to progressive liberalization. The negotiations also included antidumping measures which were sometimes used as barriers to trade. These were also made more transparent.[104] These provisions allowed for reducing tariffs on a phased basis, to an extent where tariffs will no longer be a major obstacle to the movement of goods among trading partners.

The progressive reduction of non-tariff barriers, export subsidies and other distortions to trade, are all expected to have a negative effect on CARICOM[105]and other developing countries. The likely results of the lowering and reduction of tariffs is that they would be an erosion of the margin of preference from which many CARICOM countries' exports benefit.[106] The following exemplifies the extent to which some Caribbean countries rely on special preferences relating to tariffs with the U.S.:

---

[103] John Whalley and Colleen Hamilton, *The Trading System After the Uruguay Round* (Washington, D.C.: Institute for International Economics, July 1996), 46.

[104] UNECLAC, "The Caribbean and the Outcome of the Uruguay Round in the Context of NAFTA and FTAA, " 13.

[105] GSR Associates, *Report on the North American*, 18.

[106] UNECLAC, "The Caribbean and the Outcome of the Uruguay Round," 12.

TABLE 3.4

CARICOM's Reliance on Special Tariffs Rates with the U.S.
(Selected Countries)

Country:	% of Exports not Facing (0%) Tariff
Antigua and Barbuda	82
Dominican Republic	75
Haiti	66
Jamaica	73

Source: World Bank Report 1281, LAC; Coping With Changes in the External Environment (Washington, D.C., April 1994).

The lowering of tariffs affords non-preference receiving countries and low cost producers improved access to previously restricted markets to which the Caribbean countries have special treatment. Many of the former are in a better position than the latter to compete in these large markets.[107] However, the Uruguay Round Agreement contained negotiated provisions which allowed the developing countries longer periods for implementing obligations, more favorable thresholds for undertaking certain commitments, and greater flexibility in the implementation of agreements and procedures.[108]

The liberalization of trade in agriculture and the phasing out of the MFA are of special concern to the region, particularly as they relate to the preferences given to CARICOM exports such as banana and sugar where they have already begun facing

[107] Ibid.

[108] OAS Trade Unit, "Small and Relatively Less Developed Economies and Western Hemisphere Integration" (Washington, D.C.: OAS, April 1997), 25.

increased competition. The reduction in domestic support and export subsidies for agricultural products under the Uruguay Round Agreement will likely enable efficient agricultural producers to compete freely for market share. CARICOM producers, who are considered to be not very cost efficient in production, will be at a disadvantage. To worsen the situation for CARICOM members, it is suggested that the implementation of the agreement as it pertains to agricultural products will cause prices of heavily subsidized commodities such as wheat, rice, meat, and dairy products, which CARICOM countries import in large quantities, to rise, and in the process increase their overall import bill.[109]

There is growing concern among many groups in developing countries that these societies may end up as losers as a result of the Uruguay Round. Christian Aid, a non-governmental organization, reported that certain categories of developing countries - net food importers, countries benefiting from trade preferences, commodity exporters, and countries that are too underdeveloped to take advantage of new trading opportunities, will experience losses and face major structural adjustment problems due to the result of the negotiations.[110] The organization cites studies which predict that world food prices will increase as a result of liberalization in the Organization for Economic Cooperation and Development (OECD) countries that reduce or eliminate production subsidies,

---

[109] Ibid., 13.

[110] Whalley and Hamilton, *The Trading System After the Uruguay Round*, 63.

causing a loss for the agricultural importing countries, particularly in the developing world.[111]

Another area covered by the Uruguay Round that concerns the CARICOM countries is the Agreement dealing with standards for the acquisition and protection of Intellectual Property Rights (IPRs). There is some level of concern that the Caribbean, being importers of technology, may experience an increase in the costs of acquiring and transfer of technology.[112] The agreement reached at the end of the Uruguay Round also eroded the right of countries to keep measures that stipulate, for example, that a foreign investor must use local labor or supplies. This allows investors to buy their labor and supplies in the cheapest possible market,[113] which may not necessarily be the country in which they are setting up business. CARICOM countries also see this issue as a potential loss for them. The Uruguay Round initiated a trend in international trade relations marked by a move away from a "two-tiered multilateral trading system encompassing a preferential tier for developing countries, toward a trading system in which all trading partners are bound by the same rules and obligations under an MFN framework.[114]

The Final Act of the Uruguay Round and the Marrakesh Agreement also established the World Trade Organization (WTO) with its firm commitment to advancing global trade liberalization. The organization which embodies some "50 years of

---

[111] Ibid.

[112] UNECLAC, "The Caribbean and the Outcome of the Uruguay Round," 14.

[113] John Madeley, "Dodging the Paupers' Custard Pies, " *New Statesman* 12, no. 542 (February 12, 1999): 1.

[114] "Small and Relatively Less Developed Economies and Western Hemisphere Integration," 25.

multilateral trade negotiations in the GATT," [115] is in effect the legal and institutional foundation on which the multilateral trading system is to be developed. The agreement which established the organization declares that members should conduct their trade and economic relations with a view to:

> raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, and expanding the production of and trade in goods and services, while allowing for the optimal use of the world's resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment and to enhance the means for doing so in a manner consistent with their respective needs and concerns at different levels of development.[116]

One of the main principles of the WTO is to encourage development and economic reform, by encouraging industrial countries to assist trade in developing countries. However, critics of the organization claim that its stated goals are incompatible with its policies regarding the development of non-industrialized countries. Questions are beginning to be asked as to why the effects of the organization's free trade policies on the livelihoods of people in developing countries are being ignored,[117] as jobs and economic growth are being jeopardized.[118]

---

[115] Jeffrey Schott, *WTO 2000: Setting the Course for World Trade* (Washington, D.C.: Institute for International Economics, 1996), 1.

[116] OAS Trade Unit, *Trade and Integration Arrangements in the Americas: An Analytical Compendium* (Washington D.C. : OAS, 1997) , 6.

[117] Madeley, "Dodging the Paupers' Custard Pies, " 1.

[118] Philippe Legrain, "Not an Ogre, But a Friend to the Poor, " *New Statesman* 12, no. 557 (May 1999): 17.

In regards to market access, WTO rules require developing countries to meet the same standards as the industrialized countries - reciprocity in tariff negotiations.[119] The "single undertaking" feature of the WTO agreement requires WTO members to accept all of the obligations of the GATT and its side agreements that were part of the Uruguay Round. This means that developing countries are now required to follow or undertake more trade obligations than they were previously required to do under the GATT regime.[120] Developing countries that once enjoyed the benefits of some GATT rules without having to join and take on new obligations must now end their "free ride."[121]

In addition, becoming a member by assuming the full obligations is very burdensome and has the potential to expend disproportionate amounts of resources[122] for some less developed countries, including CARICOM members. Also, the transition period given to less developed countries to become full members is relatively short, allowing them little time to continue enjoying the "free rider" benefits.[123]

In 1998, NGOs from developing countries formed a "global alliance of people's movements " to coordinate resistance against free trade, globalization and the WTO.[124]

---

[119] Finger and Winters, "What Can the WTO Do," 366.

[120] Jeffrey J. Schott, ed., *The World Trading System: Challenges Ahead* (Washington, D.C.: Institute for International Economics, December, 1996), 3.

[121] Jeffrey J. Schott, *WTO 2000: Setting the Course for World Trade* (Washington, D.C.: Institute for International Economics, 1996): 1.

[122] Finger and Winters, "What Can the WTO Do," 390.

[123] Schott, *The World Trading System*, 4.

[124] Madeley, "Dodging the Paupers' Custard Pies, " 27 - 28.

Activists from India spoke at the WTO meeting in Geneva in 1998, proclaiming that globalization, especially lower tariff barriers on food imports into the country, had severely damaged many people's lives.[125] To some critics of the WTO, globalization is viewed as a set of polices which allows the weaker members of the global society, peasant farmers, to be put into the same economic stream as the most powerful actors in the world trading system, transnational corporations.[126]

At the African Caribbean Pacific (ACP) 1999 meeting, representatives from some of the member states became outraged when some members of the EU insisted that the Lome Convention needs to be changed in regards to the granting of preferential access to the ACP countries' exports in the European markets. The Deputy Prime Minister of Barbados, Billie Miller, suggested that the:

> WTO is not the master but the servant of human welfare...negotiations must not be conducted as if WTO rules are written on tablets of stone. Rather, the rules should be applied on the basis of flexibility, to make them compatible with the basic objectives of development. If not, they will have to be revisited.[127]

Critics would like to see WTO policy change, making free trade compatible with social and economic development.

However, the organization does enjoy some support in both developed and underdeveloped countries. Advocates of the WTO's free trade policies claim that developing countries can benefit from the organization's polices in a number of ways. They suggest that because open economies are able to attract foreign investment and

---

[125] Ibid.

[126] Ibid.

[127] Ibid.

technology, even the poor in these countries can buy cheap imports rather than rely on poorly made, over-priced goods produced by local monopolies.[128]

Supporters claim that the organization may in fact help the poorer, developing countries based on the premise that it is founded on a system of rules where the weak and the strong states have an equal say. Thus whenever a country feels that another is breaching the rules, it can appeal to an impartial panel whose rulings are binding, even on the larger more powerful resource rich members.[129] As an example, they cite one ruling against the U.S. where the WTO ruled that the U.S. had to lift its restrictions on imports of Costa Rican underwear. In 1995, the U.S. set quotas to prevent imports of men's and women's underwear from some Caribbean and Central/Latin American countries from growing beyond their 1994 levels. Some countries, including Costa Rica, threatened to take their case before the WTO, causing the U.S. to back off and offer the countries more generous deals.[130]

There are also those who feel that developing countries should become more proactive and less reactive to the multilateral negotiations within the WTO. As a group that comprises close to three quarters of the membership in the WTO, by uniting their efforts they may be able to focus negotiations more on issues that they want discussed, and less on extraneous issues such as the enforcement of labor and environmental

---

[128] Legrain, "Not an Ogre, But a Friend to the Poor," 17.

[129] Ibid.

[130] Howard Banks, "Uncle Sam's Underwear Deals," *Forbes* 156, no. 3 (July 31, 1995) : 37.

standards that the WTO seems bent on pursuing.[131] It is also suggested that these countries should become prepared to exchange liberalizing trade concessions on a most-favored-nation basis in exchange for improved access to the markets of their trading partners; and that these efforts should focus on establishing realistic transition periods and technical assistance to compensate for their limited institutional capacity and resources.[132]

One of the primary ways that the WTO has chosen to advance trade liberalization is to challenge the protectionist and preferential policies that have been pervasive in, and impactful on developing countries' trading systems. Under the GATT, developing countries were not overly concerned when these policies were challenged. However, under the WTO, indications are that it will not be business as usual. One such example involves the on-going banana dispute between the U.S. and the EU in regards to the New Banana Regime which affects the fruit being exported from the CARICOM states.

Nevertheless, the WTO in an effort to repair its image and rebuild confidence in the organization in the aftermath of the Seattle conference fiasco where large demonstrations against the organization disrupted meetings and presented negative public relations problems in November 1999, urged the Quad Group (the EU, U.S., Canada and Japan) to come up with a proposal aimed at launching a new round of global trade talks. These talks are intended to make progress in allowing greater market access for imports

---

[131] T.N. Srinivasan, "WTO and the Developing Countries," *Journal of Social and Economic Development* 2, no.1 (January - June 1999): 1-31.

[132] Constantine Michalopoulos, "Developing Country Goals and Strategies for the Millennium Round," Paper Provided by World Bank Series, Working Papers - International Economics, Trade, Capital Flows (Washington, D.C.: World Bank, July 1999).

from the LDCs, and to push for greater funding for the WTO technical assistance and training programs for developing countries estimated at $US 6 million annually. Although the Quad Group supported the assistance program in the proposal they submitted to the WTO, they failed to commit adequate resources to it.[133] The developing countries strongly criticized the proposal by the Quad Group as meaningless, citing that it failed to give assurances that greater access to the developed countries' markets will be extended to developing countries, particular in the areas of agriculture and textiles. These products are considered sensitive to the developed countries, but they are also very important sources of foreign exchange for the LDCs.[134]

Other Challenges Facing CARICOM

CARICOM countries are already beginning to feel the effects of the ongoing expansion of the EU and the creation of the Single European Market (SEM). The production capability of some of the southern members of the EU put them in direct competition with some CARICOM states which enjoy certain preferential treatment within the EU markets. This situation has already begun to cause much debate both within the EU and among countries in the ACP in which CARICOM is an integral part.

In addition to the structural repositioning of the EU, another market which is vital to CARICOM and which is beginning to show signs of a shift in focus is Canada. The country has begun to realign its political and economic interests in the Western Hemisphere to include many more countries in Latin America and Mexico, and also to

---

[133] "Quad's Confidence-Shattering Trade Package: TRIMS Extensions Undefined," *Bridges Weekly Trade News Digest* 4, no. 14 (Geneva, Switzerland: ICTSD, April 11, 2000).

[134] Ibid.

include many more products.[135] Many of the products which CARICOM countries supplied or can supply to the Canadian market are also produced in Mexico and other Latin American countries at lower costs of production. CARICOM's small market size also make it "strategically less important " than the larger Latin American market, posing a serious threat to the CARICOM countries being "marginalized at the policy making level" in Canada.[136]

Another challenge for CARICOM has been the decrease in official capital flows to the region. Since the early 1990s, according to a 1994 World Bank report, the sources of external finance available to the Caribbean region have changed tremendously. Net capital flows from bilateral and multilateral sources have decreased, from an annual average of $70 per capita during 1980 - 1982, to an average of $31 per capita for 1990 - 1992.[137] Net lending from multilateral sources decreased from $546 million in 1982 to only $72 million in 1992, while net bilateral lending showed a negative balance in 1992 of negative $32 million compared with $603 million in 1982.[138]

Another source of funding to the region that showed a decrease was in USAID funds. Total U.S. assistance were reduced from $217 million in 1992 to around $180 million in 1993 for the region as a whole. For Jamaica, total U.S. assistance was $133 million in 1992, but only about $68 million in 1993; for St. Kitts, St. Lucia and St.

---

[135] GSR Associates, *Report on the North American*, 61.

[136] Ibid.

[137] "Caribbean Region: Coping With Changes in the External Environment, Sector Report 12821, L.A. and the Caribbean Region" (Washington, D.C.: The World Bank, April 1994).

[138] Ibid.

Vincent, the amount in 1989 was $1 million, but fell to zero in 1993.[139] The World Bank estimates that this downward trend is likely to continue since the donor communities perceive the region as a whole as one that has attained a level of development in which the needs are less urgent than those of Africa, and Eastern and Central Europe.[140]

All these developments have presented a situation for CARICOM that can be viewed as either a challenge or an opportunity to confront the changing global environment. The situation is one which requires the region to become more competitive, and to reach out beyond its traditional boundaries to form new relationships with a wider group of trading partners. The CARICOM leadership has already taken the initiative and was instrumental in the formation of the Association of Caribbean States (ACS) in 1994 and the signing of several bilateral trade agreements with countries such as Venezuela and Colombia. These arrangements offer CARICOM the opportunity to become used to engaging in trade in an environment that differs substantially from the one in which their economies are founded, that of non-reciprocity.

By establishing the ACS, it was hoped that the organization would provide a framework for widening trade relations and other forms of economic and functional cooperation among Caribbean states, widely utilizing the principle of reciprocity. The ACS was perceived as one under which bilateral negotiations within the hemisphere and

---

[139] Suarez, "The Caribbean in Economic Transition ," 131.

[140] Ibid., 130.

multilateral between the region and extra-regional states would be conducted.[141] With 37 states, a cumulative population of 202 million, combined GDP of around US $508 billion, the ACS has the potential of being a significant trading partner to the U.S., and can function as a conduit that allows the CARICOM countries to overcome the size disadvantage which most small economies have.[142] The ACS, though, has yet to fulfill its promise.

In the case of the Venezuela/CARICOM agreement, the provision was made for duty free access for a limited number of CARICOM products into the Venezuelan market for a period of 5 years after which the Agreement will convert to one of a reciprocal nature. The case is similar for the Colombia/CARICOM Agreement.[143]

The signing of the NAFTA Agreement between the U.S., Canada and Mexico adds another more challenging level of complexity and uncertainty to what the Uruguay Round and the other developments already outlined, have presented for the Caribbean economies.

The Problem That NAFTA Poses For CARICOM

NAFTA is viewed as a manifestation of the recent trend towards trade liberalization and reduction in protectionism. This on-going process is seen as one that will force the Caribbean states to adopt and implement revised strategies which will

---

[141] GSR Associates, *Report on the North American Free Trade Agreement*, 4.

[142] Bryan, "Coping With the New Dynamics," 243.

[143] GSR Associates, *Report on the North American Free Trade Agreement*, 4.

allow them to compete more effectively as the preferences they at present receive under the programs such as the CBI are dismantled.[144]

CARICOM sympathizers have identified a number of areas which they believe will experience negative effects as a result of the implementation of NAFTA. However, the ones that seem to elicit much concern are Trade Investment Diversion and Export Displacement. A study by the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) concluded that NAFTA is "likely to cause diversion of trade and investment into Mexico away from the rest of the Latin American and Caribbean countries."[145] Some Caribbean politicians and officials have echoed similar sentiments suggesting that investors who are thinking about establishing factories in the region would be more likely to choose Mexico instead of CARICOM because of the superior market accessibility their products will enjoy under NAFTA.[146] Richard Bernal, the Jamaican Ambassador to the U.S., has stated that the elimination of quotas and the phasing out of tariffs on Mexican products under the Agreement, could erode the advantage enjoyed by the CBI exports to the U.S., resulting in a diversion of the U.S. demand for suppliers in the Caribbean to firms in Mexico.[147]

---

[144] Fauriol, *U.S-Caribbean Relations Into the 21st Century*, iv.

[145] United Nations Economic Commission for Latin America and the Caribbean, "Open Regionalism in Latin America and the Caribbean: Economic Integration as a Contribution to Changing Production Patterns with Social Equity" (Santiago, Chile: UNECLAC, 1994). 1

[146] Julius Gittens, "NAFTA:Caricom's Prospects, Fears and Concerns," *CanaBusiness: The Financial Magazine of the Caribbean* (December 1993): 20.

[147] Richard Bernal, "The Caribbean Free Trade Agreement, NAFTA and the Caribbean Basin Initiative," *Caribbean Forum* 1, no. 1 (n.d.): 6.

Seymour Mullings, Jamaica's Minister of Foreign Affairs, reaffirms this position when he suggested that "the stark reality is that Mexico can now export its products to the United States free of duty, which makes it more profitable for producers to operate from here."[148] As a result of Mexico's larger domestic market and lower real costs of production, it is projected that new investments will also be attracted to Mexico rather than to the Caribbean, whose economies will need to greatly increase their productivity levels in the affected industries in order to become "effective competitors for international investment" in this new evolving global process.[149]

In addition to investment diversion, one preliminary study predicted that the likelihood of investment displacement occurring as Mexico becomes a more attractive location will increase and subsequently be a catalyst for uprooting already existing investments in CARICOM states their transplanting them to that country.[150] The same study showed that the trade losses to CARICOM due to displacement of CARICOM exports by Mexico should be less than 2% and that the major products which will be affected are clothing, clothing accessories, and to a lesser extent, footwear.[151] These products along with leather and leather related products, petroleum and petroleum products are the region's major non-traditional export, accounting for 30% of total U.S. imports from the region.[152]

---

[148] Larry Rohter, "Impact of Nafta," *New York Times*, January 30, 1997.

[149] G.S.R. Associates, *Report on the North American Free Trade Agreement*, xii.

[150] Ibid., 50.

[151] Ibid.

[152] Fauriol, *U.S.-Caribbean Relations Into the 21st Century*, 31.

As early as 1995, U.S. industry officials claimed that NAFTA has led to a "measurable diversion of apparel trade and investment from CBERA countries to Mexico."[153] Bennett Marsh, trade policy and legislative director of the Caribbean and Latin American Action (CLAA), a Washington D.C. based group that advocates closer relationship between the U.S. and CBI countries, worried about the impact NAFTA will have on the Caribbean countries vis-à-vis Mexico:

> NAFTA eliminates all duties on Mexican products, but only about 5% of total Caribbean exports to the U.S. receive duty free benefits via the CBI . . . The discrepancy, coupled with easier overland transportation and an ability to secure far cheaper labor than is available in CBI countries, gives Mexico a real advantage . . .[154]

The threat that NAFTA poses to CARICOM als arises in respect to the nature of the NAFTA and the CBI agreements. Although most non-sensitive products from both Mexico and the CBI countries now enter the U.S. duty free under the provisions of the GSP, NAFTA gives Mexico the advantage that its duty free access is now permanent. On the other hand, the CBI, because it is a unilateral, non-reciprocal U.S. policy, can be altered at any time by the Congress.[155] The implication of this is that NAFTA gives more security and permanency to Mexico's duty free access than the CBI affords the Caribbean. Some believe that investors are more likely to prefer a "binding treaty to the granting of a privilege" as a basis of making an investment decision.[156] Products such as

---

[153] Report from the USTR, "Second Report to Congress on the Operation of the Caribbean Basin Economic Recovery Act" (Washington, D.C.: USTR, 1996).

[154] Julie Ritzer Ross, "Shippers Question CBI," *Global Trade* 112 (October 1992): 14-15.

[155] David E. Lewis, "The North American Free Trade Agreement," *Caribbean Affairs* 4, no. 4 (October/December 1991): 61.

apparel, footwear, and leather goods which are dutiable under CBI, are expected to be granted gradually phased-in duty reductions under NAFTA.[157]

At an International Trade Commission hearing, Michael Rothbaum, the CEO of The Harwood Companies which before NAFTA took steps to open a second apparel manufacturing facility in Honduras, testified that the project will be abandoned unless CBI nations were granted the same treatment as Canada and Mexico under NAFTA.[158] The executive noted that:

> an analysis of labor costs and duties shows us that if NAFTA is enacted with no corresponding benefit to Honduras, then Mexico should be the location for our new plant. . . I am convinced that NAFTA agreement with Mexico, without the same trading advantages to the CBI countries, will bring about substantial disinvestment in apparel production in the Caribbean Basin in no more than 5 to 7 years.[159]

Another executive in the manufacturing industry, Tom Korbas, Senior Vice President of operations of American Tourister, hinted that his company was seriously considering closing its Dominican Republic plant and moving to Mexico in order to save costs.[160] Some companies had already begun relocating to Mexico in anticipation of NAFTA. A spokesman for an unidentified medium sized company said that his company began curtailing materials sourcing in the Dominican Republic and was negotiating a shift to Mexico. He explained that "what we need will very likely be brought onto Mexican soil

---

[156] UNECLAC, "The Caribbean and the North American Free Trade Agreement," 14th Session of CDCC (n.p., December 1992): 8.

[157] Ibid.

[158] Julie Ritzer Ross, "Shippers Question CBI," *Global Trade* 112 (October 1992) : 15.

[159] Ibid.

[160] Ibid.

from the Far East and made available to us duty-free. Transacting business under CBI is not an advantage anymore."[161]

Steve Lande, a Washington consultant who heads the Manchester Group, suggested that business people were withholding new orders from the Caribbean, were limiting investment, and that the growth rate in the Caribbean could not continue given the situation with NAFTA.[162] These concerns are shared throughout the Caribbean and particularly in the textile/apparel industry. Peter King, Chairman of the Caribbean Textile Apparel Institute, observed that:

> some of Mexico's growth has been the result of the diversion of investment from the Caribbean Basin . . . we are not unduly worried just about Mexico's growth, but concerned Caribbean Basin producers could go under because of it.[163]

However, not all the sentiment about NAFTA's impact on CARICOM are bleak and pessimistic. American Airlines Vice President of Cargo Sales, Steve Leonard, suggested that any advantages pertaining to Mexico will draw more business from Asia, rather than taking it away from the islands. He noted that "NAFTA is a lure for greater hemispheric business, not a loss for the Caribbean."[164] Others feel that the Caribbean should not worry about the trade and diversionary impact of NAFTA on the Caribbean because there are several existing or proposed programs that will reduce NAFTA's

---

[161] Ibid.

[162] Robert Selwitz, "CBI Nations Cry Foul When It Comes to NAFTA," *Global Trade and Transportation* 14 (August 1994) : 6 -7.

[163] Canute James, "Caribbean Garment Makers' NAFTA Fear," *Financial Times* (February 6, 1997): 1.

[164] Selwitz , "CBI Nations Cry Foul When It Comes to NAFTA," 6 - 7.

negative impact on the area and offer business some great opportunities. One such program that was administered by Puerto Rico, Section 936, offered below market rate financing for investment in CBI countries that had signed Tax Information and Exchange Agreements.[165] The program which has been discontinued for fiscal reasons in the U.S., however, was not highly utilized by the CARICOM countries.

In addition, it is felt in many circles that if NAFTA is able to increase the wealth of Mexico, Canada and the U.S. as it is intended to do, then CBI countries can benefit from their own trade relations with the larger, richer market.[166] Rodney Schonland, Manager of Trade and Relations for Polaroid Corporation, noted that the impact will not be great for the Caribbean since "manufacturing in Mexico is no more convenient than doing so within the Basin, except the maquiladoras along Mexico's border."[167] There are even those who suggest that NAFTA should be seen as an opportunity and not as a threat, as a catalyst that may help to rally domestic support for reform.[168]

Caribbean leaders too, have recognized the necessity for change and had taken the initiative in implementing economic reform programs including trade liberalization even prior to both the enactment of NAFTA and the end of the Uruguay Round. Steps that the governments in the region had taken included making progress in the creation of a single

---

[165]Henry G. Parker, "Calming the Caribbean Waters," *Global Trade and Transportation* 113 (June 1993) : 6.

[166] Ibid.

[167] Ross, "Shippers Question CBI," 14-15.

[168] Sarath Rajapatirana, "The East Asian Experience and Its Relevance to the Caribbean Within the NAFTA Environment ," *Choices and Change: Reflections on the Caribbean*, ed. Winston C. Dookeran (Washington, D.C.: Inter-American Development Bank, 1996) : 24.

market and economy, the lowering of the Common External Tariff, and the separate agreements with Venezuela and Colombia, which as indicated earlier, would eventually lead to reciprocal arrangements. Some leaders within the CARICOM are also urging that the governments take steps to intensify the diversification of their economies, and begin to take a more proactive approach to dealing with the global changes sweeping the international system.

One earlier strategy designed to lessen the negative impact of NAFTA that was supported by CARICOM leaders was a NAFTA-parity proposal. HR 1403, the Gibbons Bill, named after Representative Sam Gibbons of Florida, attempted to give parity to CARICOM countries in regards to access to U.S. markets as is given to Mexico under NAFTA. The legislation which failed to pass when it was first introduced, was designed as a "transitional arrangement" to enable the Caribbean economies to prepare for fully reciprocal trade with the U.S.[169]

HR 553, another bill introduced by Philip Crane in the House of Representatives, and S-529 introduced by Bob Graham in the Senate, calling for NAFTA-like treatment for apparel and other exempted manufactured goods, languished in Congress after failing to be passed in the 103rd Congress.[170] However, in November 1999, after much wrangling in Congress, H.R. Bill 434, which lowers or eliminates tariffs and quotas on products from the region (as well as from sub-Saharan Africa) was passed in the Senate. This was superceded by the eventual passing of the Caribbean Basin Partnership Trade

---

[169] Julius Gittens, "NAFTA:CARICOM's Prospects, Fears and Concerns," *Canabusiness* 5, no. 4 (December 1993): 21.

[170] Fauriol, *U.S. – Caribbean Relations Into the 21st Century*, 30.

Act (CBTPA) which was signed into law in May 2000, and which was the culmination of a major effort mounted by CBI governments to alleviate the perceived negative impact of NAFTA on the region. This ACT will be discussed in more detail in a later chapter.

CHAPTER 4

CARICOM'S PREFERENTIAL TRADE ARRANGEMENTS:

For more than twenty five years, CARICOM economies have built their trading relationships with the industrialized countries around preferential and non-reciprocal arrangements. Despite the nature of these arrangements, three of them, the CBI, Lome and its successor agreement, and CARIBCAN are of greater importance to the countries' economies than are others, particularly in the level of dependence that these economies have developed on the arrangements. This chapter will deal with the main preferential trade agreement, the CBI, that the Caribbean nations share with the U.S. However, it will first briefly discuss the other arrangements that were important elements of their overall participation in international trade.

The GSP

Tariff preferences for developing countries had been explicitly permitted in Article XV of the International Trade Organization's Charter, but were not included in the GATT. However, the GSP was introduced in 1971 as a GATT waiver permitting a preference scheme for developing countries. The introduction of this system legalized a trend at that time that departed from the non-discrimination principle which permeated world trade.[1] Individual GSP schemes were designed by the developed countries (the

---

[1] Richard Pomfret, *The Economics of Regional Trading Arrangements* (Oxford: Clarendon Press, 1997), 104.

donors), and included many exclusions some of which included agricultural products and labor intensive manufactured items, and commodities in which developing countries had a comparative advantage.[2]

In order to receive any duty free treatment under the GSP program, eligible items from beneficiary countries must meet certain rules or origin, which stipulate that 35% of the product must be added by a single beneficiary/country[3]. Eligible items from beneficiary countries must pass a competitive need test that consist of a dollar value limit set each year, and a 50% limit for each tariff line item.[4] The U.S. GSP schemes included ceilings or volume limits beyond which Most Favored Nation (MFN) tariffs would apply. With this arrangement, "automatic triggers" were applied for the removal of GSP benefits when GSP imports of a product, or the share of a single developing country in total GSP covered imports of a product, reached specified levels. [5]

The GSP program therefore allows a country/product to graduate from the system if these stipulations no longer hold in regards to the country or product. This feature together with rules of origin stipulation therefore serve to substantially reduce the coverage of GSP for developing countries, including the CARICOM economies.

---

[2] Ibid., 106.

[3] Joseph Pelzman and Gregory K. Schoepfle, "The Impact of the Caribbean Basin Economic Recovery Act on Caribbean Nations' Exports and Development," *Economic Development and Cultural Change* 36 (July 1988): 753 - 796.

[4] Ibid., 755.

[5] Pomfret, *The Economics of Regional Trading Arrangements*, 106.

For the Caribbean countries, after the introduction of the CBI, the GSP declined even more in importance as a conduit to duty free access to the more developed countries' markets. The share of U.S. imports from the Caribbean Basin, including CARICOM, entering under the GSP has been declining over the years because products which are eligible for duty-free entry under either GSP or CBI increasingly have entered under the CBI.[6] Also, the total absence of the GSP program, when it was not resumed for the first three quarters of 1996, further depressed the share of entries under GSP during that year. The GSP was reinstated in October 1996, but lapsed again in May 1997.[7]

From its inception, the GSP program excluded textile and apparel articles subject to international textile agreements. With the renewal and amendments to the GSP program in 1984, the list of products that was designated as not eligible articles under the program was expanded to include footwear, handbags, luggage, leather flat goods, and leather wearing apparel.[8] This served to further weaken the importance of the program to CARICOM countries. In 1997, 1.4% of imports from Caribbean Basin economies entered under the GSP, compared with 6.8% in 1984.[9]

As the participation of developing countries in the GATT and WTO increases, the basic foundation of the preferential system is weakened. Some developing countries

---

[6] "Caribbean Basin Economic Recovery Act, 12th Report, 1996: Investigation No. 332-227: Impact on the U.S. USITC Publication 3058" (Washington, D.C.: USITC, September 1997): 14.

[7] Ibid.

[8] Pelzman and Schoepfle, "Special U.S.-Caribbean Economic Relations," 178.

[9] "Caribbean Basin Economic Recovery Act, 13th Report, 1997: USITC Publication 3132" (Washington, D.C.: USITC, 1998): 22.

have already been graduated from the GSP, diminishing the numbers of countries still clinging to the system.[10] Nevertheless, the GSP was one of the most important features of trade relations between the U.S. and the Caribbean prior to the establishment of the CBI.

CARIBCAN

Canada's economic, political and cultural relations with the English speaking Caribbean were developed as early as the beginning of the 18th century when Atlantic Canada traded fish and timber for West Indian rum, sugar and molasses.[11] Since then, trade relations between the countries have remained particularly strong. The Canada/West India Agreement which came into effect in 1926 provided access to Canadian markets for traditional commodities and also made provisions for development assistance.[12] The main areas in which Canada and CARICOM have established economic, political and cultural links are through imports, selected exports to Canada, migration to Canada and the remittances of the migrants, foreign direct investment (banking, insurance, tourism and public utilities) and official development finance particularly in the funding of infrastructure projects.[13]

---

[10] Anthony P. Gonzales, "Europe and the Caribbean: Toward a Post-Lome Strategy," in *The Caribbean: New Dynamics in Trade and Political Economy* (Miami: University of Miami North-South Center, 1995) : 60.

[11] Catherine Hyett, "Caribcan: Canada's Response to the Caribbean Basin Initiative," *Imperial Power and Regional Trade: The Caribbean Basin Initiative* (Ontario: Wildrid Laurier University Press, 1993), 59.

[12] DeLisle Worrell, "Caricom and the North American Free Trade Area," Paper Prepared for the Overseas Development Council (n.p., February 1992) : 5.

[13] Ibid.

In June 1986, the Canadian government passed into law CARIBCAN, a program aimed at encouraging trade, investment and industrial cooperation with the Commonwealth Caribbean region.[14] Canadian and Caribbean leaders, in signing the Agreement, sought to foster expanded trade with Canada through preferential commercial arrangements for non-traditional exports, particularly garments, cigars, and footwear.[15]

This preferential commercial feature that offers duty-free access to the Canadian market to most Commonwealth Caribbean exports, is the backbone of the arrangement. Before CARIBCAN was implemented, 93% of the Caribbean countries' exports entered Canada duty free. With CARIBCAN, it is estimated that less than 1% of product categories are excluded from the tariff-free treatment.[16] Products which are excluded under this act include textiles and clothing, footwear, luggage and handbags, leather garments, lubricating oils, and methanol.[17] These manufactured items, however, have been identified by Caribbean leaders as the ones offering the best opportunities for rapid economic diversification and export development for the region.

In order to qualify for duty free access under CARIBCAN, at least 60% of ex-factory value of eligible products must originate in the Commonwealth Caribbean or

---

[14] "Impact of Canada-United States Free Trade on Caribcan Countries: A Report Prepared for the Department of External Affairs" (Ottawa, Canada: The Conference Board of Canada, 1988): 3.

[15] Ibid.

[16] Ibid.

[17] Ibid., 3.

Canada.[18] These restrictions, including the exclusions criteria for rules of origin and other safeguard provisions, have not been well received by Jamaican and other Commonwealth Caribbean officials.

Also included in CARIBCAN are programs to strengthen the exporting capabilities of the countries involved, as well as seminars for diplomats and business people from the region on strategies for developing markets for Caribbean products in Canada. The program affords access to the regional offices of Canada's Department of Regional Industrial Expansion to assist Caribbean trade officials in promoting bilateral trade.[19]

Imports from CARIBCAN countries account for only .23% of Canadian imports with the most important being bauxite from Jamaica. Food and beverage items, crude and refined petroleum, and other manufactured goods make up the rest of the imports. Telecommunications and related equipment exports from Barbados have been on the increase since 1984.[20]

Canada's direct investment in CARICOM's manufacturing sector is relatively small, particularly when compared to the U.S. investment. For this and other reasons, such as the volume of trade between Canada and CARICOM, not much attention has been paid to the US/Canada trade in NAFTA as they relate to any diversionary effects of

---

[18] Gregory K. Schoepfle, "U.S. Caribbean Trade Relations Over the Last Decade: From CBI to ACS, " *The Repositioning of US-Caribbean Relations in the New World Order*, ed. Ransford Palmer (Westport, NY: Praeger Publishers, 1997): 9.

[19] Hyett, "Caribcan," 64; "Impact of Canada-United States Free Trade," 3.

[20] "Impact of Canada-United States Free Trade," 4.

trade and investment from the Caribbean. On the contrary, one study forecast that NAFTA is more likely to have a positive outcome for the CARICOM states. As corporate profits in Canada increase as a result of NAFTA, it is predicted that there will be a greater import demand in Canada which will subsequently import more from the CARICOM countries.[21]

The Lome Convention

The Lome Convention signed in 1975 between the European Community and the ACP group of countries was seen as a new form of North-South cooperation at the time it came into being , and had since been regarded as one of the most generous of the European Union's hierarchy of preferences for developing countries. Its stated purpose was to promote "trade between the ACP states and the Community, taking account of their respective levels of development, and also between the ACP states themselves."[22]

The Agreement was designed to act as a catalyst for promoting the economic, cultural and social development of the ACP states by granting duty free access to the European Community's market.[23] The first Lome Convention agreement covered the period 1976 to 1980, and was followed by three successive agreements, the last of which expired in 2000. Other principal features of the Lome Conventions included areas of cooperation, programmed aid and commodity export earnings stabilization.[24]

---

[21] Ibid., 8.

[22] OAS Trade Unit, "Special and Differential Treatment in International Trade," submitted to the FTAA Working Group on Small Economies (Washington, D.C.: November 17, 1995).

[23] Pomfret, *The Economics of Regional*, 95.

[24] Wendell A. Samuel, "The OECS-EC Trade Under the Lome Convention: The Promise and Disappointment" (Barbados: University of the West Indies, 1989): 1.

Trade

Trade, the main component of the program, provided for non-reciprocity involving one-way duty free access for a substantial percentage of ACP products. ACP agricultural and processed agricultural products were exempt from customs duties and preference was given to ACP products over those from non-member countries.[25] Such access was unlimited for industrial products and surpassed the provisions of the GSP which established competitive need ceilings on some of these products. Also, the tariffs under Lome on agricultural goods were lower for a wider range of commodities compared to the levels under the GSP.[26] Since the first Lome, trade provisions were broadened to improve access for some additional ACP products such as rice, strawberries tomatoes, tropical fruit and vegetables.[27]

There were a limited number of agricultural products, for example, bananas, sugar, and rum, which came under specific arrangements on protocols in the agreement. These commodity arrangements were established to ensure stable and remunerative prices for the major export staples to the European Community's market. Under the Rum Protocol, the ACP nations were able to export annually, a specific, fixed quantity of rum free of customs duties. Some ACP countries, including the Caribbean nations of Jamaica, Barbados, Trinidad and Tobago, and Guyana, had benefited a great deal from

---

[25] Ransford Palmer, *Caribbean Dependence on the United States Economy* (N.Y.: Praeger Publishers, 1979), 25.

[26] Gonzales, "Europe and the Caribbean," 55.

[27] Ibid., 56.

this protocol.[28] The Sugar Protocol enabled the ACP states to export guaranteed amounts of sugar cane at the Common Agricultural Policy (CAP) prices, which were about two to three times higher than the world market price.

The Banana Protocol was the one arrangement in the Agreement that caused much controversy both within the EU and outside Europe in recent years. Bananas from the ACP countries enjoyed special privileges that gave them an advantage over fruit from non-ACP member countries. However, with the establishment of the Single European Market (SEM), a New Banana Regime (NBR) was implemented which was designed to satisfy several considerations, including protecting the preferential arrangement with the ACP countries until the conclusion of the Lome IV in 2000. The NBR in effect sought to maintain guaranteed access to ACP bananas particularly for those member countries whose economy was heavily dependent on banana exports. It tried to guarantee the incomes of European producers, and support the European companies involved in the industry in anticipation of the rising competition expected form the American transnational corporations.[29]

Before 1992, there were three distinct banana regimes in the European market, where consumers in some countries paid more for their bananas (as in Britain and France) than those in others (as in Germany):

---

[28] "The Lome Convention: A Unique Model for Development Cooperation," *Stabroek News* (Georgetown, Guyana) May 9, 1997, iv.

[29] Clive Bishop, "The Impacts of Integration on the Caribbean Banana Market " (n.p., Windward Islands' Farmers Association, n.d.): 17.

- A preferential market for France, Britain, Spain, Italy, Portugal and Greece for producers from either the EU and/or ACP countries;
- A duty free market in Germany; and
- A market that was subject to 20% tariff in Denmark, Ireland, Belgium, the Netherlands, and Luxembourg.[30]

While the ACP producers, overwhelmingly from the Caribbean, supplied the vast majority (88%) of the market in the U.K., and 35% of the French market (mainly from African producers), the dollar producers of Latin America supplied close to 100% of the bananas to the Belgian, Danish, and German markets; 90% in the Irish and Dutch markets; 85% in the Italian market and 12% in the U.K. market.[31] The dollar producers of Latin and Central America are mainly controlled by three U.S. multinationals - The United Brands (Chiquita) with 35% of the world market; Standard Fruit (Dole Foods) with 20%; and Del Monte with 15%. Together, they control about 66% of the EU market.[32] With the establishment of the Single European Market (SEM), these different regimes were replaced by a single one that would be universally applicable. It is therefore not surprising that the NBR (1993) was opposed by interests both within and outside the EU. In the case of the former, Germany was forced to buy greater quantities of more expensive

---

[30] Paul Sutton, "The Banana Regime of the European Union, the Caribbean and Latin America," *Journal of Interamerican Studies and World Affairs* 39, no. 2 (Summer 1997).

[31] Ibid.

[32] Anthony Bryan, "Trading Places: The Caribbean Faces Europe and the Americas in the Twenty- First Century," *The North-South Agenda Papers*, no. 27 (Miami: University of Miami, North-South Center, June 1997). 1

Caribbean fruit, over the less costly competing fruit from the Latin and Central American banana exporting countries.

This change in policy led to a landmark case and ruling, and the ongoing dispute within the WTO, as the Latin and Central American producers along with the U.S. companies with interests in the banana industry in those countries challenged the EU and its NBR in the WTO. It is widely believed among most developing countries, that the ones with the most to lose in this case are the ACP countries, particular the small banana producing and exporting islands of CARICOM, whose economies are substantially dependent on bananas.

CARICOM leaders believe that this case represents a harbinger of what the future holds for them in this era of globalization and trade liberalization, and with the thrust by some industrialized countries and the WTO to dismantle the preferential trade arrangements that have been in existence for more than two decades. CARICOM sympathisers feel that the ruling in favor of the dollar producing countries of Central and Latin America and the U.S. companies by the WTO, spells disaster for their economies. CARICOM governments strongly believed that they need the preferential access previously afforded by Lome to be rolled over into the new Partnership Agreement, to enable them to compete with other larger exporting economies.

Aid Under Lome

The aid component of Lome was generally awarded based on a country's per capita income, thus favoring some beneficiary countries more than others. Aid was categorized into two areas, Programmed and Non-Programmed. Programmed aid is set up to assist the ACP states to more predictably plan their investments program.[33] Non-Programmed aid, on the other hand, was the basis of the commodity export earnings stabilization programs, the System of Stabilization of Export Earnings, (STABEX) and the Special Financing for Safeguarding Mining Production (SYSMIN). The STABEX was used mainly to cover shortfalls in earnings resulting from fluctuations in prices or output of agricultural exports to the European Community. SYSMIN provided assistance to countries that depended heavily on mining.[34]

In the area of cooperation, the Center for the Development of Industry (CDI) was established to assist in industrial promotion, and to provide information to small and medium sized industries of the ACP states in identifying and acquiring technology, markets and financing among other things.[35] The European Investment Bank was also assigned a key role in the area of financing industrial development in the ACP.[36]

The Lome trade provisions were considered to be a lifeline for many ACP countries which would find it extremely difficult to compete under conditions of unrestricted world trade. This was in spite of the fact that the EU had over the years built up a favorable trade balance with the ACP even with the non-reciprocity provision.[37] In the last two decades, the export performance of ACP countries in the European market

---

[33] Samuel, "The OECS-EC Trade," 5.

[34] Ibid.

[35] Gonzales, "Europe and the Caribbean," 56.

[36] Ibid.

[37] Gonzales, "Europe and the Caribbean," 58.

has deteriorated.[38] The ACP countries' share of the EU market declined from 6.7% in 1976 to 3% in 1988. [39] The ACP economies have failed to achieve a high level of diversification into nontraditional areas as primary products still dominate their exports, with ten products accounting for 80% of these exports.[40] This is as a result of some ACP countries' trade and fiscal policies which act as a hindrance to the expansion of exports. Some ACP countries also suffer from shortages of financial and physical infrastructure and skilled labor which act as a brake to the development of trade.[41]

The EU's restrictive rules of origin also served to limit the expansion of ACP trade with the former.[42] These rules stipulated a local content requirement in Lome IV of 45% of the finished product in order for it to be eligible for ACP preferential treatment. For many ACP countries, particularly the smaller economies, this requirement was somewhat unattainable and unrealistic because of the lack of resources. The rules of origin also created additional burdens for many ACP countries because of their complexity and the human resources required to keep track of all the rules, regulations, provisions and complicated procedures.[43]

---

[38] Bryan, "Trading Places : The Caribbean Faces Europe and the Americas in the Twenty- First Century," The North-South Agenda Papers 27 (Miami: The North-South Center, The University of Miami, June 1997): 3.

[39] EU Commission website: *http://europa.eu,int/comm/development.*

[40] Ibid.

[41] Ibid., 4.

[42] Gonzales, "Reciprocity in Future ACP/EU Trade Relations with Particular Reference to the Caribbean" (Trinidad and Tobago: Institute of International Relations, UWI, 1996): 10.

[43] Bryan, "Trading Places," 4.

In addition, the preferential benefit that the ACP enjoys with the EU has gradually been eroded as a result of various agreements and concessions made by the EU to other developing countries and through the GSP.[44] The southern group of European countries, for example, where agricultural production and agro-processing industries directly compete with ACP products, are in a more favorable situation to deal with international trade liberalization, and have benefited more from new trade arrangements granted by the EU over the years.[45]

CARICOM/Lome Trade

Many analysts feel that Lome had not benefited the CARICOM region in the area of export expansion as was hoped. In fact, some CARICOM states experienced a widening trade deficit with Europe between 1985 and 1995.[46] As is the overall trend with the ACP/EU trade, Caribbean exports to the EU grew very slowly with their share of the EU market declining in recent years. In 1982, the Caribbean (including the Dominican Republic and Haiti) experienced a small trade surplus with the EU amounting to $400 million. However, by 1990, the situation had changed as the EU accounted for 17.3% of CARICOM trade, and CARICOM showing a net trade deficit of $350 million.[47] Even in the case of Britain which has been the main EU trading partner for most of the CARICOM states, and which is the destination for a major portion of CARICOM's

[44] Ibid.

[45] Ibid.

[46] Ibid.

[47] Gayle, "The Evolving Caribbean Business Environment," 137.

export, there was a decline with the Caribbean as a wh le from 0.9% to 0.4% of total British exports, and from 0.7% to 0.5% of total British imports, between 1983 and the third quarter of 1988.[48] The following table shows EU trade with CARICOM countries in the 1980s and 1990s:

TABLE 4.1

EU Trade with CARICOM Countries ($US Millions)

Country	Exports Years				Imports Years			
	85	88	91	95	85	88	91	95
Antigua/ Barbuda	42	59	75	89	2	22	18	11
Bahamas	160	205	388	687	191	103	267	336
Barbados	79	74	100	205	22	39	42	47
Belize	21	34	44	42	20	42	40	110
Dominica	21	24	48	38	24	64	58	30
Grenada	15	20	20	20	12	21	13	13
Guyana	40	33	70	175	120	126	137	196
Jamaica	114	208	246	314	149	261	460	482
St. Kitts/Nevis	9	22	20	25	7	8	12	14
St. Lucia	21	48	54	131	57	110	91	79
St. Vincent	18	26	53	73	29	69	63	54
Trinidad and Tobago	220	162	208	337	278	182	215	318
Total	760	915	1326	2136	911	1047	1416	1690

Source: IMF, Direction of Trade StatisticsYearbooks 1989, 1996

[48] Colin Leys, "Britain, the Caribbean Basin, and the Caribbean Basin Initiative, " Donner Canadian Foundation Project on Sovereignty and Security (Kingston, Ontario: Queens University, May 1989): 5.

Yet, the trade component of Lome is important to CARICOM. In the negotiations of the first Lome, Caribbean governments sought protection for traditional exports such as rum, sugar and bananas. These trade provisions greatly outweighed aid considerations because the Caribbean generally had a higher per capita income than the other ACP members, and thus less importance was given to the aid factor. Duty free access to the EU's market is critical for CARICOM's sugar, banana and rum industry. Overall these exports gained the desired access and stable remunerative prices. In addition, the sugar and banana protocols stabilized and at times increased export earnings. Due in part to the STABEX , both the sugar and banana revenues were much larger than what could have been obtained at world prices, [49] and these revenues were particularly important to the economies of the Windward Islands, Jamaica and Belize, the main exporters of those products.

Traditional agricultural and mineral exports continue to dominate CARICOM-EU trade. Until quite recently, bananas were the main foreign exchange earner for the Windward Islands and accounted for around 78% of agricultural exports. In terms of the share of total export earnings from the EU in 1992, it represented approximately 90% in St. Lucia and Dominica, 60% in St. Vincent and the Grenadines, and 20% in Grenada.[50] In Dominica and St. Lucia, the banana industry employs almost 50% of the workforce.[51] Non-traditional exports including manufacturing are relatively insignificant primarily due

---

[49] Gonzales, "Europe and the Caribbean: Toward a Post Lome Strategy," 60.

[50] Bryan, "Trading Places: The Caribbean Faces Europe and the Americas in the Twenty-First Century," 5.

[51] Ibid.

to the high EU tariff barriers which discourage non-traditional imports from the Caribbean via the EU's rules of origin.[52] Most of the Caribbean exports to the EU are still limited to a narrow range of commodities. For Jamaica, four products - bananas, sugar, rum, and bauxite/alumina - account for 90% of exports to the EU.[53]

Manufactured exports from CARICOM to the EU did not thrive under Lome, as they have done in the U.S. market under the CBI, and even in this latter case, it is mainly Jamaica and the Dominican Republic that have mostly benefited from this expansion. The rise in manufactured exports to the U.S. from CARICOM is one of the reasons why the U.S. has outpaced the EU as a destination for exports from and as a trading partner of CARICOM.

TABLE 4.2

CARICOM Exports by Destination, 1992
(US $3.6 Billion)

USA	40.6%	Latin America	4.4%
EU	17.2%	Japan	1.1%
CARICOM	12.3%	Others	24.4%

Nevertheless, some CARICOM countries, for example the small banana exporting states, have depended to such a great extent on EU commodity protection that they are becoming increasingly concerned and can barely envision their survival in a world in which globalization and liberalization rule. The EU has advocated a more diversified

[52] Gayle, "The Evolving Caribbean Business Environment," 137.

[53] Ibid.

economic base for these countries with tourism and more local non-traditional agriculture playing a pivotal role, as an alternative to the banana industry.[54]

In February 2000, the EU and ACP leaders met to finalize an agreement to replace Lome IV. The ministers agreed to a new Partnership Agreement, a 20 year convention under which the terms of Lome IV will be extended through 2002. After 2002, there will be a preparatory period for the ACP countries extending to 2008 that would be used to strengthen regional integration processes and build their capacities to conduct trade negotiations and to engage in freer trade. From 2008 through 2020, the EU and ACP will begin a two way free trade arrangement that conforms to WTO rules.[55]

One of the objectives that was outlined in the negotiations was "to promote smooth and gradual integration of ACP economies into the world economy" and the WTO system,[56] and for a replacement of the preferential market access arrangement with a series of regional trade agreements by the year 2008. The new accord also emphasizes a joint approach to combating poverty and promoting sustainable development.[57]

The CBI

The most important of the preferential arrangements to the Caribbean countries is the CBI. The CBI was officially announced by President Ronald Reagan at the

---

[54] Gonzales, Reciprocity in Future ACP/EU Trade Relations with Particular Reference to the Caribbean, 17.

[55] "EU, ACP Agree to New Trade and Aid Accord," available from *http://www.ictsd.org,*; Internet; accessed February 8, 2000.

[56] "The New Trade Framework," available from *http://euro.eu.int/comm/development*; Internet; accessed February 8, 2000.

[57] "ACP-EU Waiver Request Receives Lukewarm Reception, " *Bridges Weekly Trade News Digest* 4, no. 14 (Geneva, Switzerland: ICTSD, April 11, 2000) .

Organization of the American States (OAS) meeting in February 1982. However, the Caribbean Basin Economic Recovery Act (CBERA) which passed into law the CBI program, did not come into effect until January 1, 1984. The initial idea for the establishment of what was hoped to be a "Marshall Plan" for the Caribbean had originated with the CARICOM leaders and in particular Prime Minister Edward Seaga of Jamaica.[58] It is believed that the U.S. embraced the proposal for the CBI as a response to an economic crisis that was perceived to be threatening the political and social stability throughout the Caribbean region. The escalating costs of oil, declining world prices for the region's primary exports which included sugar, coffee, bauxite, the increasing debt burden, and the perceived threat to democracy in the region from the political leadership in Cuba, Grenada and Nicaragua contributed to the situation which was viewed as a crisis for the region.[59] The Reagan Administration saw the national security interests of the U.S., of which the economic interests were an important component, as being threatened by the situation in the Caribbean. The administration therefore regarded the CBI as a program that would help in alleviating the impending social and political instability in the area.

Objectives of the CBI

The CBI was presented as an economic package but was really designed to address political and security concerns which the U.S. felt could no longer be ignored.

---

[58] Lloyd Searwar, "The Dilemmas of Being Small: Some Thoughts on the CARICOM Approach to the North American Free Trade Area and the Enterprise for the Americas Initiative" (Georgetown, Guyana: n.p., May 16, 1991): 16.

[59] Schoepfle, "U.S. Caribbean Trade Relations Over the Last Decade: From CBI to ACS," 9.

One of the primary objectives of the program that was outlined in the Act was to help beneficiary Caribbean Basin countries "earn their own way towards self sustaining growth"[60] by providing aid to encourage the private sector activity, unilateral and nonreciprocal duty-free treatment for a wide range of U.S. imports from the region, and by stimulating both national and foreign private investment.[61]

Although several tax and trade related incentives were included in the program, the centerpiece of the CBI was the provision of the unilateral and nonreciprocal duty-free treatment for a wide range of U.S. imports from the region.[62] This program of aid, trade and investment, it was hoped, would serve to stabilize the region by revitalizing the economies. The CBI was also seen as an attempt to redirect Caribbean trade and economic links away from regional multilateral relations such as those with the UK and Canada, towards bilateral ties to the U.S.[63] This package, presented as an economic, trade oriented and private sector-based initiative, appeared to emphasize multilateralism rather than bilateralism. It was therefore packaged to respond to the interests of the U.S. even as it served the Caribbean Basin.[64] The Administration sought to clarify the point that the CBI was comprehensive in nature, in that it integrated trade concessions with

---

[60] Winston H. Griffith, "Caricom Countries and the Caribbean Basin Initiative, " *Latin American Perspectives* 17, Issue 64, no.1 (Winter 1990): 33.

[61] Ibid.

[62] Joseph Pelzman and Gregory K. Schoepfle, "The Impact of the Caribbean Basin Economic Recovery Act on Caribbean Nations' Exports and Development," *Economic Development and Cultural Change* 36 (July 1988): 733.

[63] Bakan et al., *Imperial Power and Regional Trade*, 5.

[64] Ramnarine, "The Political Logic of the CBI, " 20.

investment incentives and financial assistance, [65] and that this represented a departure from traditional U.S. programs that emphasized financial assistance.

In addition to trade, the other important component in the CBI package was foreign investments. The program sought to ensure that specific sectors in the Caribbean Basin would be made safe for foreign investment from the U.S. in particular, with the aim of maintaining control over the region.[66]

Sociopolitical Aim

The Reagan Administration successfully sold the program as a multilateral economic strategy that could address instabilities in the region at their socioeconomic source while promoting U.S. interests there.[67] To the Administration, the strategy represented a cost effective alternative to political violence, economic decline and human suffering, and mass migration to the U.S. from the Caribbean Basin.[68] The view was that economic development in the region would promote stability which was vital to U.S. interests including the safeguarding of export markets and investments from communist inspired regimes.[69]

The Reagan Administration used the CBI to fashion Jamaica, under its conservative pro-US government, into a model of development as an alternative to the

---

[65] Ibid., 21.

[66] Clinton G. Hewan, *Jamaica and the United States Caribbean Basin Initiative: Showpiece or Failure* (New York: Peter Lang Publishing Inc., 1994), 10.

[67] Ramnarine, "The Political Logic of the CBI," 12.

[68] Ibid., 23.

[69] Ibid.

Cuban system.[70] Implemented in the wake of the Nicaraguan and Grenadian revolutions, and the increasing rejection of U.S. hegemony throughout the region, the CBI was therefore used as an instrument to reward or to punish declared socialist regimes in the region.[71] This policy was observed by the initial exclusion of Nicaragua , Grenada, Guyana and Suriname, which had socialist or military governments, as designated countries.

The underlying philosophy of the CBI was that broad based economic growth could lead to political stability, and that this growth should be export-led and depend to a large extent on both local and foreign private sector initiatives. The signing of CBERA marked the first time that the U.S. engaged in a unilateral, nonreciprocal trade preference program specifically directed toward a particular geographic region.[72]

Although the program was promoted as one that would be of mutual benefit to the Caribbean region and to the U.S., there were critics within congress who did not support the CBERA legislation. Objections were raised that the CBI would be detrimental to U.S. domestic industries and subsequently lead to the unemployment of U.S. workers as industries were lured to the region. Critics also suggested that foreign, non Caribbean Basin competitors would use the region as a duty-free conduit to the U.S. market.[73] Proponents however, countered with the argument that the Caribbean economies would

---

[70] Ibid., 12.

[71] Don D. Marshall, "From Triangular Trade to (N)AFTA: A NeoStructuralist Insight Into Missed Caribbean Opportunities," *Third World Quarterly* 17, no. 3 (1996): 445.

[72] Schoepfle, "U.S. Caribbean Trade Relations Over the last Decade: From CBI to ACS, " 1.

[73] Ramnarine, "The Philosophy and Developmental Prospects of the CBI," 110.

become lucrative markets for the U.S. goods and attractive venues for investment in manufacturing industries that would raise the global competitiveness of U.S. industries.[74] It was suggested that the cheaper unskilled labor of the Caribbean Basin workers would supplement the skilled labor of U.S. workers to produce goods that would be more competitive, without incurring the loss of jobs. Also, as the CBI strengthened the economies of the region, it was projected that the already high demand for U.S. goods would also increase.[75] An important argument that was presented by proponents of the agreement was that by promoting economic development in the Caribbean, this was one way to slow the migratory flow from the region to the U.S.[76]

Features of the CBI

Initially, the CBERA specified that the program would last for a period of 12 years until 1995. However in 1990, the program was replaced with CBI II which covered an indefinite period of time and expanded the benefits in a number of areas. Congress also urged that special efforts be undertaken to improve CBI utilization in the very small island states of the Eastern Caribbean, and Belize.[77]

The three basic components of the CBI are concessionary trade arrangements, considered the most important aspect of the program; the allotment of tax incentives for

---

[74] Ibid.

[75] Ibid., 111.

[76] Ransford Palmer, "Caribbean Relations With the U.S. in the Twenty-First Century," *Caribbean Forum* 1, no. 1, Issue 11 (Winter 1994) : 5.

[77] Lloyd Searwar, "The Dilemmas of Being Small: Some Thoughts on Caricom Approach to the North American Free Trade Area and the Enterprise for the Americas Initiative" (Georgetown, Guyana: n.p., May 16, 1991): 20.

specific U.S. business activities in the Caribbean; and one-off financial assistance for balance of payment support.

Concessionary Trade Arrangements

The CBI affords preferential rates of duty below the MFN rates to most products from the Caribbean Basin countries by reducing the tariff rates on a number of products entering the U.S. market from the region. However there were some products that were excluded - textile, apparel, petroleum and petroleum products, canned tuna, footwear, luggage, handbags, leather, rubber, plastic gloves, and watches and watch parts containing material made in a communist country. Sugar was also granted duty-free status, but remained subject to non-tariff barriers such as import fees and unilaterally imposed quotas. In order to be eligible for duty free treatment under CBERA, articles grown, produced or manufactured in a beneficiary country must meet the rules of origin criteria which specify that at least 35% value added must be from one or more CBI beneficiary country. Also, the program specifies that up to 15% of the value added requirement can be accounted for by the value of U.S. made components, with the remaining 20% being CBERA-beneficiary nations' value added portion.[78]

Many beneficiary countries, including some of the CARICOM states criticized the arrangement in that it originally excluded products in which the countries had a comparative advantage in production. One such export was textile/apparel. As a result of the criticism concerning the exclusion of textiles and garments, the Caribbean Basin Special Access Program for Apparel was introduced in February 1986 under the CBI

[78] Pelzman and Schoepfle, "The Impact of the Caribbean," 754.

framework.[79] This special program "the Super 807 Program", provided for a more favorable treatment for Caribbean Basin apparel and textile under 3 types of agreements:

1) Specific Limits (SLs) which are absolute quotas either negotiated or unilaterally imposed and which increase by a certain percentage annually;
2) Guaranteed Access Levels (GALs) which are reserved for garments assembled in beneficiary countries from materials manufactured and cut in the U.S.;
3) Designated Consultation Levels (DCLs) which allows negotiated levels of apparel articles to enter the U.S. [80]

Imports under the GALS are now charged duty only on value added outside the U.S. These special provisions give CBI beneficiaries what amounts to an unlimited access to the U.S. market for qualifying textile/apparel products.

With these provisions, the U.S. sought to integrate CBI economies into its textile and apparel industry. In order to be cost effective in production, the U.S. industry required a higher incidence of offshore production which meant low wages and cheaper factors of production being utilized.[81] The Special Access Program also gave liberal import quota treatment to U.S. companies that used U.S. fabric, (knitted or woven and cut in the U.S.) in CBI assembly operations.[82]

---

[79] Bakan et al., *Imperial Power and Regional Trade*, 5.

[80] Ibid.

[81] Don D. Marshall, "From the Triangular Trade to NAFTA: A NeoStructuralist Insight into Missed Caribbean Opportunities," *Third World Quarterly* 17, no. 3 (1996) : 446.

[82] Ibid.

Domestic and Foreign Private Investment

The provisions in CBI were specifically framed to provide a clear path through which the private sector could develop. Foreign investment was emphasized since it was considered to be preferable to other sources of capital inflow such as official aid and private loans. It serves to transfer new technology and management skills in order to increase exports and reduce the burden on the existing export sector in achieving the dual goal of renewed domestic growth and servicing the national debt."[83] The CBI thus provides tax incentives to promote foreign investment in the CBI countries.

Another element of the CBI was the promotion of domestic private investment as a complement to foreign investment. However, incentives had to be made available to dissuade capital exports and retain investments in the region. It was hoped that the state would limit economic intervention and public sector spending in order to make more capital available for investment.

Beneficiaries of the CBI - The Textile/Apparel Industry

The most visible gains as far as the CARICOM countries are concerned with regard to the CBI provisions have been in textiles and apparel, a sector which was excluded under the initial CBI benefits, but later included under the Special Provisions of the 807 code, which has been renamed HTS 9802.[84] Over 80% of the apparel imports

---

[83] Ramnarine, "The Philosophy and Developmental Prospects of the CBI," 85.

[84] Item 807.00 of the Tariff Schedule of the U.S. (TSUS) had been in effect since 1963. In 1989, the U.S. replaced the TSUS with the Harmonized Tariff System (HTS) as the basis for classifying imported goods for duty and other customs purposes. HTS 9802.00.80 is the successor provisions to item 807.00 of the former TSUS. HTS 9802.00.80 provides a duty exemption for U.S. components that are returned to the U.S. as parts of goods assembled abroad.

from CBERA countries in 1996 entered under the HTS 9802 tariff provision.[85] Textile and apparel have registered the most gain of all other manufacturing exports.[86] By the late 1980s, this product became the major CBERA country export to the U.S., surpassing those of crude and refined petroleum products.[87] Between 1983 and 1986 apparel exports increased by 107% followed by textiles with an 81% increase.[88]

According to the USITC, the products which have attracted the most investment in the 1980s were apparel manufacturing, ethanol, agriculture. fish processing and aquaculture. In the insular Caribbean, Jamaica and the Dominican Republic have received the largest appropriations. By the end of the decade, the apparel industry was the largest recipient of foreign investment and the fastest growing industry in the region. Garment exports from Caribbean Basin countries grew 80% between 1985 and 1987, increasing their share of total U.S. apparel imports from 5% to 9%.[89] Between 1984 and 1996, apparel imports grew form 5.5% of overall U.S. imports to 41%, with a value reaching $6 billion.[90] During 1987 to 1996, apparel shipments from CBERA countries more than quadrupled, increasing at an average rate of 21% per year.[91] U.S. apparel

---

[85] "Caribbean Basin Economic Recovery Act, 12th Report 1996, Investigation No. 332-227, USITC Publication 3058 (Washington,. D.C.: USITC, September 1997).

[86] Hewan, *Jamaica and the United States Caribbean Basin Initiative*, 124.

[87] Schoepfle, "U.S. Caribbean Trade Relations Over the Last Decade: From CBI to ACS," 25.

[88] Ramnarine, "The Philosophy and Developmental Prospects of the CBI," 92.

[89] George P. Montalvan, "Promoting Investment and Exports in the Caribbean Basin: Papers and Proceedings (Washington: OAS, General Secretariat, 1989): 62.

[90] "Caribbean Basin Economic Recovery Act, 12th Report," xiii.

[91] Ibid.

firms shipped garment parts valued at $5.3 billion to the CBERA countries for sewing in 1996, nearly double the amount in 1993 and $810 million more than in the previous year.[92] The rise in apparel imports from CBERA countries reflected increased U.S.-Caribbean production sharing.

The Caribbean region is the second leading source after Mexico of U.S. production-sharing imports.[93] Almost all U.S. apparel exports to CBERA beneficiaries consist of garment parts, which are reimported as assembled garments.[94] In CBERA apparel production sharing, U.S. firms ship garment parts to the region for sewing, and re-import the assembled garments paying duty only on the value added offshore.[95]

In order to increase the export production in CBERA countries and expand the use of U.S. fabrics, the U.S. government in 1986 introduced a "Special Access Program" for CBERA goods within the framework of the former "807" provision. Commonly known as "807A", the program provided in addition to the reduced duties, guaranteed access to the U.S. market for apparel assembled in participating CBERA countries from fabric made and cut in the U.S. Apparel under these provisions enter under virtually unlimited quotas known as "guaranteed access levels" (GALS). The U.S. components can be made of either U.S. or foreign fabric as long as the fabric is cut to shape in the U.S. and exported ready for assembly. By 1998, the U.S. had agreements providing

---

[92] Ibid.

[93] "Caribbean Basin Economic Recovery Act: 13th Report, " xiii .

[94] Ibid., xv.

[95] Ibid., 13.

for GALS and regular quotas with six CBERA beneficiaries - Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Jamaica.[96]

The rapid growth of Caribbean apparel shipments to the U.S. followed the implementation of the Special Access Program for CBERA countries in 1986. Since 1983, two way trade between the U.S. and CBERA countries in the textile/apparel sector has grown by an annual average of 20% to $12 billion in 1997 far exceeding the 6% annual gain in overall U.S.-CBERA trade.[97] Levis Strauss' Director of Government Affairs, David Weiskopf, stated that the "CBERA has been a catalyst for significant changes in our global sourcing strategies".[98] The company has shifted much of its offshore production from Asia to the CBI region, where U.S. made fabric and components are used in greater amounts than in Asia. Weiskopf suggested that:

> the expansion of apparel assembly operations in the CBI countries has brought benefits to all concerned - U.S. textile producers who manufacture fabric used in the region's apparel operations; U.S. apparel manufacturers who benefit from lower cost assembly operations and lower transportation costs due to the region's proximity to the U.S.; America's workers in high value jobs related to the pre and post assembly stages of apparel manufacturing; and thousands of workers and families in the Caribbean Basin countries.[99]

Performance/Results of the CBI

More than a decade and a half after the implementation of the CBI, the performance has been mixed in terms of the program's objectives. However, there is

---

[96] Ibid.

[97] Ibid.

[98] Ibid.

[99] Ibid.

general agreement as to some of the observed results in specific sectors and in individual countries.

The CBI has been credited with shifting the export orientation and commodity structure away from traditional agricultural products towards non-traditional fruits and vegetables, industrial processing, and assembly operations in the region. At the same time, it has "perpetuated and reinforced" dependence on the U.S. economy by integrating Caribbean countries more closely into the international production structure of manufacturers in the U.S.[100] It has "provided the impetus to the development of trade and investment" between the U.S. and the Caribbean Basin resulting in an increased flow of trade and investment between the two areas.[101] It is believed that the CBI has been a good strategy for building trade linkages opposed to creating a dependence on aid, and is therefore seen as a stimulus for economic development in the region.[102]

The U.S. was the single largest destination for exports from the CBERA beneficiaries combined during the period 1980 - 1996. Before the CBI, Caribbean Basin countries' exports to the U.S. market were predominantly high value petroleum products. However, between 1983 and 1989, non-traditional CBI-eligible exports from the beneficiary countries to the U.S., principally textiles and apparels registered improved

---

[100] Hyett, "Caribcan:Canada's Response," 76.

[101] Elena M. Suarez, "The Caribbean in Economic Transition, " Choices and Change: Reflections on the Caribbean, ed. Winston C. Dookeran (Washington, D.C.: Interamerican Development Bank, 1996): 125.

[102] Richard Bernal, "Changing Trade Trends Confronting the Caribbean," *CAIC Magazine* 1.1 (4th Quarter, 1996): 16.

performance showing a 90.8 percent increase in that time period.[103] Textile and apparel, which by 1989 had become the major item imported from the region, accounting for 25% of all U.S. imports from the region, is now the largest source of U.S. trade with the region. In 1997 it accounted for 35% of the total trade, up form 6% in 1983.[104]

The results of a survey published by the Department of Commerce indicated that 285 new export oriented investments in CBI countries, valued at $208 million and creating approximately 25,891 jobs, could "be reasonably tied" to the CBI from the period of its inception to the Spring of 1985. Of these, 75 new investments were reported to have been made in Jamaica, making it appear to be a preferred location.[105] The majority of these new investments, however, were in the export-oriented assembly operations.

In another survey of CBI investment projects conducted by the U.S. Department of Commerce in 1988, it was revealed that the fastest growing category of foreign direct investment (FDI) in manufacturing was export oriented assembly operations, and that the textile/apparel industry was the largest FDI recipient and fastest growing in the region. It was also established that the benefits of the CBI related foreign investment and related promotion efforts were concentrated in just three countries, the Dominican Republic, Jamaica and Costa Rica.

---

[103] Bakan et al, *Imperial Power*, 8.

[104] "Caribbean Basin Economic Recovery Act 13th Report," 13.

[105] Ramnarine, "The Philosophy and Developmental Prospects of the CBI," 92 - 93.

Another important finding was that while some countries have undoubtedly benefited from the CBI program as far as expansion of exports and attracting foreign investment, others have not fared as well. One subgroup that has not shown any significant increase in trade under the CBI is the smaller CARICOM nations.[106] This pattern has been reflected in exports to the U.S. from the CBERA region which showed that in 1992, the Central

American countries accounted for 42.3% of U.S. imports, followed by the Central Caribbean countries of the Dominican Republic, Jamaica, and Haiti accounting for 32.5%, and the oil producing countries with 23.1% . The Eastern Caribbean countries accounted for only 2.1% of total U.S. imports from the Caribbean Basin in that year.[107]

Between 1983 and 1986, CBERA eligible exports from the Eastern Caribbean (most of which are CARICOM countries) fell from $215.7 million to $89.4 million, and then to $77.1 million form 1986 to 1989. [108] The Eastern Caribbean is the only subgroup where U.S. trade has declined since the inception of the CBI program, and most of these countries have not had much success in attracting a high level of foreign investment.

The majority of CBI investments in CARICOM has been in the textile/apparel industry, where forward and backward linkages are minimal. It has been suggested that the reason why CBI has had a limited impact on CARICOM countries as a whole is due to the "non-dynamic manufacturing entrepreneurial class, the relative unattractiveness of

---

[106] "Survey of CBI Investment Projects " (Washington, D.C.: U.S. Department of Commerce, July 1988).

[107] Suarez, "The Caribbean in Economic Tansition, " 126.

[108] Pelzman and Schoepfle, "The Impact of the Caribbean," 194.

CARICOM countries as global platforms, the new technological revolution, and the adoption of economic policies which harm national industry".[109] These observations confirm the finding that not all the countries in the region have benefited to any great extent from the CBI.

On the other hand, there are some countries such as the Dominican Republic and Honduras that have successfully promoted and attracted a large amount of new private investment, much of it foreign direct investment from the U.S. Between 1984 and 1990, almost $2 billion in new investments went to some Caribbean countries as a result of CBI.[110] Many of these countries have significantly increased their manufactured exports of nontraditional products, while thousands of new jobs have been generated in others as a result of the program.[111]

Despite these varying results or because of them, the U.S. seems to have emerged as one of the prime winners or beneficiaries of the CBI. The U.S. has maintained a consistent trade surplus with the region since 1986. From 1983 to 1990, U.S. imports from the Caribbean declined by 15.6%, and U.S. exports to the region surged by 64% from $5.7 to $9.7 billion.[112] In 1992, the U.S. trade surplus with the region amounted to

---

[109] Winston H. Griffith, "Caricom Countries and the Caribbean Basin Initiative," *Latin American Perspectives* 17, Issue 64, no.1 (Winter 1990): 35.

[110] Sarath Rajapatirana, "The East Asia Experience ad Its Relevance to the Caribbean Within the NAFTA Environment," in *Choiches and Change: Reflections on the Caribbean.*

[111] "Survey of CBI Investment Projects" (Washington, D.C.: U.S. Department of Commerce, July 1988).

[112] Dalley, "A Post-Nafta U.S. Trade Policy," 171.

$1.8 billion.[113] Total value of U.S. imports from CBERA countries amounted to 1.9% of total U.S. imports in 1997, while the value of U.S. exports to CBERA countries was 2.8%.[114]

U.S. exports to CBERA countries have more than tripled growing from $5.9 billion in 1980 prior to the implementation of CBERA, to $17.8 billion in 1997.[115] The increased use of free trade zones as well as CBERA and production sharing provisions (PSP) have generated a growing demand for U.S. made parts, accessories, machinery and equipment required to assemble these products in the Caribbean. This production structure which has boosted U.S. exports to these countries, is one of the main reasons why the Caribbean region has become the second leading source after Mexico of U.S. production-sharing imports, and the leading source of U.S. imports of apparel.[116]

Production sharing with CBERA countries involves primarily semi-finished products, cut apparel pieces exported from the U.S. to low-labor -cost CBERA countries where they are assembled and returned to the U.S. for further processing, packaging and distribution.[117] As a result of the increase in investment in this sector, U.S. exports to CBERA beneficiaries of cut fabric used in the assembly of apparel products increased in importance between 1990 and 1997. It is estimated that each $1 billion of exports to the region generated 20,000 new direct jobs in the U.S. The increase in CBI purchases of

---

[113] Suarez, "The Caribbean in Economic Transition," 126.

[114] "Caribbean Basin Economic Recovery Act 13th Report," xiii.

[115] Ibid., 35.

[116] Ibid., xiii.

[117] Ibid., 40.

U.S. goods and services from 1983 to 1990 helped to create around 80,000 new direct jobs in the U.S.[118]

The U.S. also enjoys a strong advantage with the program in that CBI industries in the region have a strong propensity to purchase raw materials, machinery and equipment from the U.S. Consequently, around 45% of the CBI imports come from the U.S.[119] These figures which are based on trade reports, suggest that the U.S. has gained more than the CBI countries from the trade arrangement.[120]

Up until the mid 1990s, there was a widespread sentiment in the Caribbean that the CBI was a disappointment particularly for the smaller CARICOM nations as a whole in the area of trade and increased exports. However, supporters of the agreement feel that the CBI may have benefited the region in other ways.[121] Many Caribbean Basin countries have strengthened their infrastructure to improve investment possibilities by developing industrial parks and free trade zones. The countries have also reinforced their administrative institutions to promote exports and investments, and as a result, increased their understanding of the international economy, foreign investment and its role in economic development.[122]

---

[118] Ibid.

[119] Dalley, "A Post-Nafta U.S. Trade Policy," 171.

[120] *Business America* (April 25, 1988): 42 - 43.

[121] Montalvan, *Promoting Investment and Exports*, 96.

[122] Ibid.

The CBI has also been credited with functioning as a first and vital step in the expansion of trade and U.S. investment in the region, and trade between the region and the U.S. It has also stimulated growth by encouraging economic reform and liberalization of economic policies in the region.[123] The program is believed to have acted as a catalyst to encouraging the countries in the Caribbean to embrace privatization and deregulation that promote "export driven, private-sector led" growth and development.[124] The CBI is also regarded as having supported economic reform which resulted in "genuine" market economies that laid the foundation for mutual prosperity, growth and stronger trade links.[125] These benefits seem to support the claims of proponents of preferential arrangements:

> . . . underlying the adoption of preferential treatment in regional economic integration has been the notion that the benefits which relatively less developed countries might derive from access to expanded markets in the context of regional trade liberalization arrangements will not accrue merely as a result of trade liberalization measures, but also as a consequence of the implementation of mechanisms that might counteract structural deficiencies of various kinds which prevent these countries from experiencing the full benefits of economic integration.[126]

There are however, critics of the CBI who feel that the program's drawbacks and disadvantages outweigh any benefits that have been cited by its proponents, and that the arrangement has not lived up to its expectations nor met its objectives.

---

[123] Dalley, "A Post-Nafta U.S. Trade Policy, " 171.

[124] Ibid.

[125] Ibid.

[126] "Small and Relatively Less Developed Economies and Western Hemisphere Integration, " 26.

Critics of the CBI

The CBI was implemented as part the U.S. policy to revisit its relations with the Caribbean Basin in the wake of deteriorating economic and political conditions that were considered as having the potential to threaten the economic and security interests in the region. As a result, some critics of the program feel that the arrangement was not designed to primarily assist the economies of the region but to fulfill two primary purposes vital to the national interests of the U.S.:

> . . . to assist private enterprise, particularly the U.S. businesses by ensuring that the Caribbean region remain open to and safe for internal as well as external investments . . . and to guarantee the economic and military security interests of the U.S. by ensuring its continued dominance of the Western Hemisphere.[127]

Critics argued that the program reflected the U.S. Administration's interest in "military security, political loyalty, and advantages for U.S. firms, rather than U.S. concern for the region's long term development".[128] Some suggest that the fundamental flaw with the program stems from the fact that it was designed to satisfy the needs and interests of the U.S. more than those of the Caribbean region. Various sectors of the Caribbean society including union, non-governmental developmental agencies, and Caribbean "grassroots" organizations have criticized the CBI strategy that involves private sector led, export oriented development. The argument they offer is that this strategy instead of building on the productive strength of the region, only served as a stimulus to offshore production for

---

[127] Hewan, *Jamaica and the United States*, 115.

[128] Ibid., 114.

the re-export assembly type industries which create limited stable employment opportunities with few forward and backward linkages to the local economies.[129]

The program was also criticized in that it involved bilateral investment treaties which ignored regional concerns. In the case of CARICOM, the arrangement ignored the subregion's unified approach to attracting foreign investment which involved a plan to lessen competition between the small states. The program also did not support regional production schemes and paid little attention to cooperation in the agro-industry. With a bilateral negotiating strategy, the CARICOM nations were placed at a disadvantage in the negotiations. The governments were forced to participate in the negotiations without the type of technical advice and regional resources that would have been available had they been required to negotiate as a group.[130] With their outdated technologies, inadequate management systems, and inadequate training and assistance,[131] CARICOM countries also lacked the entrepreneurial and financial resources to capitalize on the different provisions of CBI.

Results indicate that the CBI, although it attempted to stimulate exports from the Caribbean Basin countries, also encouraged greater imports from the U.S. contributing to the consistent balance of payment deficit that the subregion has experienced in the last two decades with the U.S. The program has been criticized as one that has overlooked

---

[129] Ibid., 126.

[130] Catherine Hyett, "The Impact of the CBI on Barbados, Jamaica, and Grenada: An Assessment" in *Imperial Power*, 211.

[131] Griffith, "Caricom Countries and the CBI," 38.

social development and its ramifications in favor of providing incentives to the private sector to increase exports.

Conclusion

Edward Seaga, one of the original architects of the idea for a program to assist the economies in the region, had embraced the CBI as a vehicle that would push the region's economy to a higher level of development. Although it is debatable whether this has occurred, there are several countries that have benefited to some extent from the program, while there are others where the results have not been as expected.

Overall, the CBI may have provided the countries in the region, particularly the smaller economies which may not have benefited a great deal from the trade, aid and investment package, with the experience and exposure to deal with the U.S. on important trade issues. The level of expertise gained could be an important asset and work to their benefit in the current negotiations underway involving the Free Trade Area of the Americas arrangement.

More importantly for the region, the arrangement seems to have served more than merely as a trade arrangement with preferential treatment that is supposed to aid small countries in developing their economies. This is evident in the fact that even the small economies which have not capitalized on the arrangement as some of the larger countries, have been the most proactive and vocal in their desire to ensure that the program continues and that it is strengthened so that other regional trade arrangements such as NAFTA, would not detract from it and erode any benefits afforded to the CBERA beneficiaries.

CHAPTER 5

NAFTA AS A CATALYST FOR INCREASED TRADE RELATIONS : IS IT A PROTECTIONIST OR A FREE TRADE PROMOTING AGREEMENT?

Background

In January 1994, the governments of the U.S., Canada and Mexico implemented the NAFTA, considered to be the first reciprocal free trade pact between a developing country and industrial countries. The Agreement brought together a market of around 357 million people with a gross national product of about $5,932 billion.[1] The impetus behind the establishment of NAFTA can be viewed in terms of the individual goals and agendas of the three member states which included a combination of economic, social and political issues. "Economic integration is often motivated less by economic interests than by social and political movements and pressures"[2] seems quite appropriate in the case of NAFTA, although it would appear at first glance to be exclusively about trading relationships, in some respects free, and in other areas, more restricted.[3]

The idea for NAFTA was the first step towards President Bush's Enterprise for the Americas (EAI), a proposal for an entity that would link all the countries in the

---

[1] Gary Clyde Hufbauer and Jeffrey J. Schott, *NAFTA: An Assessment* (Washington, D.C.: Institute for International Economics, October 1993), 1.

[2] Michael Wallace Gordon, "Economic Integration in North America - An Agreement of Limited Dimensions by Unlimited Expectations, " *The Modern Law Review Limited* 2, no. 26 (March 1, 1993): 157.

hemisphere, except Cuba, in an economic trade bloc. The EAI, when completed, would have rivaled the then evolving European Union at that time with a market of around 358 million people and gross national product of approximately $5,784 billion.[4]

For the U.S., there were several reasons why NAFTA was warranted, although it was more Mexico than the U.S. which was aggressive and proactive in pushing for the negotiations for a free trade agreement. Jean Pasquero suggested that the U.S., by promoting NAFTA, (and also more recently, the Free Trade Area of the Americas - FTAA) is pursuing four individual goals: 1) it is reinforcing its position as a world power in the Post Cost War Era; 2) it is promoting its own form of free market ideology; 3) it is advancing democracy through trade and 4) it is securing access for U.S. products and services to world markets.[5] President Bush considered an agreement with Mexico as a part of a broader trade strategy that would promote free trade throughout the Western Hemisphere, while acting as a stimulus for multilateral trade negotiations.[6]

The U.S. administration also intended that NAFTA would assist economic development in Mexico, and give support to the economic reforms of President Salinas Administration, which the U.S. considered sincere in its efforts to promote economic growth and greater cooperation between the two governments, particularly on matters of mutual interest, such as drugs and immigration.[7] Although the Agreement consisted of

---

[4] Hufbauer and Schott, *NAFTA: An Assessment*, 1.

[5] Jean Pasquero, "Regional Market Integration in North America and Corporate Social Management," *Business and Society* 39, no. 1 (March 2000).

[6] Sidney Weintraub, *NAFTA at Three: A Progress Report* (Washington, D.C. : The Center for Strategic and International Studies, 1997) : vii .

[7] Ibid.

language dealing primarily with areas such as capital movements, transportation, competition policy and dispute resolutions, there were "unwritten agendas" that alluded to the governance of immigration, the uncontrolled movement of millions of mostly unskilled, illegal Mexican immigrants crossing the border into the U.S., and the latter's interests in the Mexican energy reserves.[8]

The Agreement contains no provisions in regards to the immigration of workers, in accordance with U.S. wishes. However, part of the motivation and rationale is that NAFTA, by increasing domestic employment opportunities, will provide the means to keep Mexicans at home. Another motivation that drove U.S. support for NAFTA was the growth and competition from Mexico-based Japanese firms, involved in "screwdriver" operations. These firms were increasing their competitiveness vis-à-vis American companies by utilizing the low labor costs in Mexico to increase their market shares in the U.S.[9] The Administration also hoped that NAFTA would help to draw U.S. owned but Asian based facilities producing for the U.S. market, to Mexico. Thus, in the U.S., NAFTA was promoted as an arrangement that will increase U.S. exports and as a way to make the country "safe" for U.S. investment - that Mexican governments' history of nationalizing foreign assets would be curbed.[10]

The Mexican government, on the other hand, saw NAFTA as a way to obtain assurance of an open U.S. market which had become an important element of its new

---

[8] Gordon, "Economic Integration," 157.

[9] Ibid., 158.

[10] John R. MacArthur, *The Selling of 'Free Trade: NAFTA, Washington, and the Subversion of American Democracy* (New York: The McGraw Hill Companies, Inc.), 10.

development policy. Particularly attractive were the opportunities for job creating investment possibilities that seemed promising under the free trade agreement.[11] The Canadian government, on the other hand, hoped to preserve the benefits of the Canada/US Free Trade Agreement (CUSFTA) that was signed with the U.S. in 1989, and thus did not hesitate to be included in the NAFTA agreement.[12]

The NAFTA Agreement

Although not considered a real free trade deal in some circles,[13] NAFTA constitutes a comprehensive agreement that is designed to promote an environment that encourages "fair" competition while increasing investment opportunities within each country. It provides for the progressive elimination of all barriers to trade over a 10 year period for the U.S. and Canada, and 15 years for Mexico. Members agree to give preferential treatment to those inside the bloc, by eliminating tariff and non-tariff barriers to trade in goods; improving access for services trade; strengthening protection of intellectual property rights and creating an effective dispute settlement mechanism.[14] NAFTA also establishes a framework in which further regional, trilateral and multilateral cooperation can be expanded and be enhanced.

In addition to the main agreement, there are five supplemental agreements included in NAFTA which address, among other things, cooperation on the environment,

---

[11] Weintraub, *NAFTA at Three*, 32.

[12] As mentioned earlier, Canada will not be focused on in this study as will be the U.S. and Mexico.

[13] MacArthur, *The Selling of 'Free Trade'*, 10.

[14] Paul Dacher, "The North American Free Trade Agreement (NAFTA): A Status Report, " *Business America* (August 1996): 1

investment, labor, and intellectual property rights. The Bilateral Investment Treaty (BIT) stipulates that the rights and privileges given to a national investor can be extended to a foreign investor. The BIT along with the Intellectual Property Rights Agreement (IPRA) and other strict criteria, render eligibility for membership in NAFTA a very selected process and difficult to achieve for less developed nations in the hemisphere, should they consider membership. Countries must demonstrate that they are open to undergoing a sufficient level of economic reform and are pursuing economic strategies based on market driven principles.[15] Potential members must show a commitment to the multilateral trading system, and progress in achieving open trade regimes, including the process of privatizing industries, opening up the economy to foreign investors, and instituting exchange and interest rates determined by the market.[16]

Another important issue regarding the membership in NAFTA is that the Agreement is based on reciprocity. As the least developed member of the group, Mexico was obligated to provide reciprocal guarantee that its market also would remain open to its NAFTA partners. However, some provisions such as the gradual approach to removal of tariffs in different sectors, were made to compensate for Mexico's lower level of development in the Agreement.[17] A comparison of various indicators in the years prior to

---

[15] Henry S. Gill, "NAFTA: Challenges for the Caribbean Community" in *The Caribbean: New Dynamics in Trade and Political Economy*, ed. Anthony T Bryan (Miami: University of Miami North-South Center, 1995): 30.

[16] Ibid.

[17] Victor Bulmer-Thomas, Nikki Craske, and Monica Serrano, eds. *Mexico and the North American Free Trade Agreement: Who Will Benefit* (New York: St. Martin's Press, 1994): vii.

the signing of NAFTA gives an insight into the disparate levels of development that were brought together under the umbrella of a single economic integration bloc:

TABLE 5.1

Economic Characteristics: U.S., Canada and Mexico

	U.S.	**Canada**	**Mexico**
GDP per capita (1988) $US	19,678.00	18,747.00	2,116.00
Population (mid 1988) millions	246.33	25.95	82.73
Population Growth Rate, 1982 1988 (%)	.97	.87	2.08
Population below 15 years old, 1987 (%)	21.50	21.40	41.60
Employment:			
# of employees in workforce, 1988 (millions)	118.00	12.40	7.40
Employees in services sector (%)	69.60	69.80	31.30
Employees in Agriculture (%)	3.00	4.90	33.10
Employees in Industry (%)	27.40	25.30	28.10
Labor Compensation per industrial sector Employee, (1988 wages plus fringes)	13.92	13.58	1.57
Capital Goods as a % of Industrial Production (1987)	35.0	25.0	14.0
Productivity, GDP/employee (1988)	42,161.0	39,733.0	7,935.0
Per capita public expenditure on education	1,126.0	1,171.0	59.0
% of 20 - 24 year olds enrolled in higher education (1986)	59.0	55.0	16.0

Source: IMD International, The World Competitiveness Report (Lausanne, Switzerland: 1990).

At the time of the Agreement, Mexico was barely able to meet those eligibility requirements for membership. However, the country had, beginning in the 1980s, embarked on a policy of economic liberalization, moving towards a relatively open market. The government undertook a number of radical, internal and external economic reforms relying to a greater degree on market forces in allocating resources in a more efficient manner.[18]

Mexico's Attempts at Economic Reform and Trade Liberalization

Under Presidents de la Madrid (1982 - 1988) and Carlos Salinas de Gotari (1988 - 1995), austerity measures were implemented which were reinforced by the International Monetary Fund (IMF) and the World Bank, to counteract balance-of-payments crises.[19] Both administrations pushed outward looking economic programs and backed away from the import substitution approach to industrialization that had been pursued years earlier. The country joined the ranks of GATT members in 1986 to reinforce its interest in a free trade agreement with the U.S. It also pursued diversification and promotion of its exports to improve competitiveness.[20]

By the late 1980s, the Mexican government had implemented strict fiscal policies over the country's monetary and spending regimes, devalued the currency, and imposed wage controls. Import tariffs were reduced to an average of 13% for goods entering Mexico, in contrast to about 5% for goods entering the U.S.[21] Strategic industries such as banks, trucking, airlines and parts of PEMEX, the state-run oil company, were privatized and deregulated, introducing a certain amount of competition into the

---

[18] Gladstone A. Hutchinson and Ute Schumacher, "NAFTA's Threat to Central American and Caribbean Basin Exports: A Revealed Comparative Advantage approach, " *Journal of Interamerican Studies and World Affairs* (Spring 1994).

[19] Don Marshall, "NAFTA/FTAA and the New Articulations in the Americas: Seizing Structural Opportunities," *Third World Quarterly* 19, no. 4 (1998): 690.

[20] Hutchinson and Schumacher, "*NAFTA's Threat.*"

[21] Gordon, "Economic Integration in North America," 116.

economy. The government also tried to lure capital to Mexico by reducing the numerous barriers to foreign investments. It also played an important role in stimulating exports by offering programs such as the Pitex Program (Temporary Import Program), the Maquilarora and the Drawback Program, all designed to grant benefits to import and export companies.[22]

By the early 1990s, the closed Mexican economy of the early 1980s was transformed into a relatively open one. Inflation, which had reached an annual rate of 159% in 1987, was reduced significantly to levels around 10%. The financial deficit which registered over 15% of GDP in 1982 and 1986, was continuously reduced to reach a surplus by 1992. Interest rates in the domestic financial markets also declined in both real and nominal terms from the 1980s.[23] Mexico entered into a series of bilateral agreements with the U.S in the 1980s which further opened up trade between the two countries, and which gave Mexico a special status with the U.S. upon which the development of NAFTA was facilitated.[24]

Under President Salinas' administration, Mexico was very aggressive and proactive in pursuing NAFTA negotiations. Subsequent administrations continued the country's focus on trade liberalization and the signing of NAFTA which undoubtedly served as a demonstration of the country's commitment towards that policy. This attitude was reflected in Mexico's Commerce Minister's comments in 1996 that, "...we

---

[22] Mercedes Cortazar, "Mexico's Export Competitiveness," *Apparel Industry International* (September/October , 1998): 1.

[23] Bulmer-Thomas et al, *Mexico and the North American Free Trade Agreement*, 39.

[24] Gordon, "Economic Integration in North America," 167.

are looking for free trade anywhere we can find it because we believe that is the way to promote our exports, and in that fashion, promote employment in Mexico."[25]

Mexico also sought to develop other trade arrangements with hemispheric nations, pursuing bilateral trade liberalization agreements with the Central American countries, signing a 1992 unilateral framework agreement with Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. Similar agreements were also signed with Columbia, Chile, Venezuela, and Bolivia.[26]

U.S./Mexico Trade: Before and After NAFTA

Trade between Mexico and the U.S. started to increase before the implementation of NAFTA as a result of: 1) Mexico's economic recovery during the late 1980s; 2) Mexico's reduction of import duties which began around 1983 and accelerated after Mexico's membership in GATT, and 3) the 'anticipation effect' of the impending NAFTA.[27] Trade between the two countries increased quite consistently after Mexico emerged from its economic crisis of the 1980s, and particularly after the country unilaterally opened its market to imports and focused on export oriented development.

There are some indications that NAFTA has also contributed to the growth in U.S./ Mexico trade at a very significant level, and to an increase in foreign direct investment (FDI) to Mexico. Although trade had increased consistently over the last two decades, while in 1980 two-way trade was merely $28 billion, in 1995 it had grown to

[25] "In Praise of NAFTA", *El Financiero Weekly International*, 1996.

[26] Marshall, "NAFTA/FTAA," 693.

[27] Weintraub, *NAFTA at Three*, viii.

$107 billion.[28] U.S. exports to Mexico and Mexican exports to the U.S. each rose by more than 20% in the first nine months of 1994, contributing to Mexico becoming the second largest consumer of U.S. products, surpassing Japan.[29]

Between 1990 to 1997, Mexican exports to the U.S. rose from 78.8% of total exports to 85.4%.[30] Between 1994 and 1998, figures show an even greater increase registering a 113% growth from $81.5 billion to $174.4 billion, exceeding the rate of growth among all of America's top ten trading partners including Canada, which trade with the U.S. grew 56% to $329.9 billion from $211.7 billion.[31]

TABLE 5.2

U.S. Imports from Mexico 1983 - 1999: ($US Millions)

1983	**1984**	**1985**	**1986**	**1987**	**1988**
16,618.9	17,762.4	18,938.2	17,196.4	19,765.8	22,617.2
1989	**1990**	**1991**	**1992**	**1993**	**1994**
26,556.6	29,506.0	30,445.1	33,934.6	38,667.7	48,605.3
1995	**1996**	**1997**	**1998**	**1999**	
61,721.0	74,179.1	85,004.8	93,017.4	109,018	

Source: U.S. Dept. of Labor, compiled from the official statistics of the U.S. Dept. of Commerce

---

[28] Ibid., 31

[29] Brigitte Levy, "Globalization and Regionalism: Main Issues in International Trade Pattern, " *International Trade in the Twenty First Century*, ed. Khosrow Fatemi (New York: Elsevier Science Inc., 1997), 69.

[30] Anne O. Krueger, "Are Preferential Trade Arrangements Trade Liberalizing or Protectionist?" *Journal of Economic Perspectives* 13, no.4 (Fall 1999) : 110.

[31] John S. McClenahen, "NAFTA Works, " *Industry Week* 249, no.1 (January 2000): 1

U.S. exports to Mexico showed similar increasing trends beginning in the 1980s as the following shows:

TABLE 5.3

U.S. Exports To Mexico 1983 - 1999: ($US Millions)

1983	1984	1985	1986	1987	1988
8,755.2	11,461.2	13,084.3	11,924.9	14,045.2	19,853.3
1989	**1990**	**1991**	**1992**	**1993**	**1994**
24,117.3	27,467.6	32,279.2	39,604.9	40,265.5	49,136.0
1995	**1996**	**1997**	**1998**	**1999**	
44,880.8	54,685.9	68,393.2	75,369.3	81,381	

Source: U.S. Dept. of Labor, compiled from the official statistics of the U.S. Dept. of Commerce

Of the $230.6 billion worth of merchandise which the U.S. exported to its NAFTA partners from January to November 1998, $78.1 billion went to Mexico.[32]

Foreign investment into Mexico also began to rise in anticipation of NAFTA and showed a marked increase once NAFTA came into effect. Between 1989 and 1994, FDI averaged about $4.5 billion a year. For the first seven months in 1994, FDI to Mexico rose by 32% over the same period in 1993, with about 62% of the share coming from the U.S.[33] From January 1994 through April 1996, FDI totaled $16.5 billion.[34]

This consistent growth in US/Mexico trade and investment has made Mexico the second largest trading partner of the U.S., accounting for over 70% of Mexican exports

---

[32] U.S. News Wire, "Details of the Trade and Developoment Act of 2000" (Washington, D.C.: White House Fact Sheet, 2000).

[33] Levy, "Globalization and Regionalism," 69.

[34] Weintraub, *NAFTA at Three*, 32.

and imports; and made the U.S. Mexico's most important trading partner.[35] When the Mexican economy grew in 1994, U.S. exports increased, and when it experienced a slowdown in 1995, U.S. exports fell. U.S. exports also moved in sympathy with the economic downturn in 1995 in Mexico, and with its recovery the following year.[36]

NAFTA appears to be responsible for a boom in the manufacturing sector that is restructuring economies on both sides of the border, particularly in the northern part of Mexico.[37] The growth is occurring as a result of companies relocating their operations to the Mexican states, and also as a result of Asian producers using Mexico as a gateway to North America for high end production.[38] Many Asian companies, including Sony, Matsushita, and Sanyo, are looking at areas such as Baja California, the Mexican state situated on the southern border of San Diego, as prime locations for setting up business. Samsung, a Korean company, expanded its plant workforce in the industrial park near Tijuana in 1998. Companies from Japan, Taiwan and South Korea which manufacture component parts, are considering establishing operations in Baja California to take advantage of the benefits the maquiladora sectors provide under NAFTA. It is reported that two of every three television sets bought in North America are manufactured in this region.[39]

---

[35] Tom Stundza, "Trade Approaches $ 600 Billion, " *Purchasing* 128, no. 3 (March 9, 2000).

[36] Weintraub, *NAFTA at Three*, 51.

[37] Michael Riley, "NAFTA Restructures Border Economies," *Insight on the News* 14, no. 48 (December 28, 1999): 42 - 43.

[38] Ibid.

[39] Ibid.

On the U.S. side of the border, the San Diego area has positioned itself to take advantage of NAFTA by setting itself up as a supplier of high-end services, as a site for research and development centers, and as a residential community for corporate headquarters and personnel, where managers and technical workers commute across the border to Baja each day. The local government has even built specially constructed commuter lanes to accommodate this growth for trips that can take a couple of minutes.[40] San Diego is becoming known as an "emerging giant of the Pacific economy bringing together the manufacturing prowess of Asia, a pool of cheap Mexican labor" and the area's own high tech enterprises.[41]

U.S./Mexico Trade:Textile and Apparel

One of the most important sectors in Mexico that has shown to have gained tremendous benefits from NAFTA has been that of the textile/apparel industry. Prior to the implementation of NAFTA, apparel exported from Mexico to the U.S., which is the former's primary foreign market, was subject to relatively high import duties and indirect costs such as quotas that limited the amounts that Mexico could export to the U.S.[42] Over 90% of U.S. apparel imports from Mexico before NAFTA were "re-imports" - garments assembled from pre-cut pieces that had been shipped to Mexico by U.S. firms under 807 regulation. U.S. garment firms often backed out of Mexican sourcing

---

[40] Ibid.

[41] Ibid.

[42] Elena M. Suarez, "The Caribbean in Economic Transition," *Choices and Change: Reflections on the Caribbean*, ed. Winston C. Dookeran (Washington, D.C.: Interamerican Development Bank, 1996): 129.

arrangements, citing a number of complaints ranging from poor quality, inconsistency, long lags in turnaround, communication problems, and bureaucratic red tape.[43]

Under NAFTA, import duties were immediately eliminated from about 80% of Mexico's apparel trade with the U.S. The remaining apparel that did not gain duty free status when the Agreement came into effect will benefit from an accelerated implementation of free trade, with annual reductions in duty and liberalization of quota that began in 1994 and will continue until 2001.[44] In addition, administrative requirements including documentation and other enforcement measures were simplified or eliminated.[45]

While NAFTA represents the first attempt by the U.S. to subject or open its heavily protected textile and apparel sector to significant trade liberalization with a developing country,[46] it establishes strict rules of origin for textiles and apparel. In order to qualify for preferential treatment, textile and apparel goods must normally pass a "triple transformation test" which essentially requires that finished products be cut and sewn from fabric spun from North American fibers in order to qualify for NAFTA preferences.[47]

---

[43] Judi A. Kessler, "New NAFTA Alliances Reshape Sourcing Scene," *Bobbin* 41, no. 3 (November 1999): 1

[44] Ibid.

[45] Ibid.

[46] Hufbauer and Schott, *NAFTA:An Assessment*, 45.

[47] Ibid.

NAFTA also provides a reduced rate and generous quota for Mexican apparel made from Asian fabric, a benefit which is not provided to other exporters such as the Caribbean countries. Mexico is not required to pay duty on value added portion of the 807A exports, as Caribbean countries are required to do.[48] Apparel assembled in Mexico from "fabric wholly formed and cut in the U.S." enters free of duty and quota under NAFTA (subject to the "fabric forward" rule of origin). In 1996, yarn forward represented 88% of the total value of U.S. imports of apparel from Mexico.

Before the Agreement was signed, Mexican textile/apparel exports to the U.S. market were only 3.5% of total U.S. imports. However, by 1997, these exports constituted more than 9% of the U.S. total textile and apparel goods imported from Mexico.[49] The majority of the former are blue denims, non-woven fabrics, woven cottons, and cut corduroy; while cotton pants, cotton t-shirts, synthetic fiber pants, brassiers and cotton shirts and sweaters, constitute apparel's major exports.[50]

From 1994 to 1997, Mexico increased its share in the U.S. market in denim, cotton, and synthetic pants, cotton t-shirts and cotton and synthetic sweaters. Mexico supplies the U.S. market with approximately half of its total denim imports.[51] Between 1995 and 1998, Mexican apparel exports to the U.S. increased 119%, surpassing those of

---

[48] Ibid.

[49] Mercedes Cortazar, "Mexico's LaLaguna Excels in Maquila," *Apparel Industry International* (March/April 1998): 1

[50] Ibid.

[51] Ibid.

Hong Kong, China, South Korea, and the ASEAN states.[52] In the first six months of 1995, Mexico experienced a rise in exports to the U.S. by 69% to $1.3 billion.[53] In 1997, exports rose to $7.875 billion, or 41% more than what was registered in 1996, rendering the sector one of the most important and dynamic ones and accounting for 62.6% of total exports.[54]

In the first quarter of 1998, Mexican textile and apparel exports to the U.S. showed an 18.4% increase compared to the same period in 1997, to reach a total of $1.947 billion;[55] and for the year 1998, exports to the U.S. alone exceeded $6 billion, three and a half times greater than Mexico's 1980 maquila output of all manufactured goods. No other country among the top ten exporters to the U.S. boosted its exports to such an extent. Mexico's exports to the U.S. have risen at a significant rate of 44% a year since NAFTA was implemented.[56]

The nucleus of Mexico's sewn products exports, the maquiladora system, grew from about 100 registered plants in 1980 to about 2000 in 1994 across all industries. That number increased to 3000 by 1999, with about one third of the total being apparel factories.[57] Some companies that are adding to this growth include Borden Apparel

---

[52] Kessler, "New NAFTA Alliances," 1.

[53] Larry Luxner, "CBI Grows, but Mexico Dominates," *Bobbin Magazine* (November 1995): 73

[54] Cortazar, "Mexico's Export Competitiveness," 1.

[55] Ibid.

[56] "US Bill Could Return Lost Jobs: A Proposed Trade Law Could Help Caribbean and Central American Countries Bring Back Jobs to NAFTA," *Greensboro News and Record* via ProQuest (November 18, 1999).

[57] Kessler, "New NAFTA Alliances," 1.

Inc., which invested \$3.5 billion to build an apparel factory in Mexico, one that would generate 1500 direct jobs and 8,000 indirect jobs; and Industries Borja, which invested \$1 million in a textile plant along the Mexico-Texas border, that would offer significant employment opportunities. Sigma Industrial Corporation also recently constructed a \$140 million textile factory in Mexico.[58]

Textile and apparel production appears to be concentrated and accounting for significant growth in some areas of Mexico more than in others. The manufacturers of LaLaguna lead the nation in the production of denim. In the states of Coahuila and Durango two years ago, there were over 300 factories and it was estimated that over 40,000 direct jobs were generated with an average production of three million garments manufactured per week.[59]

NAFTA therefore appears to have been instrumental in promoting textile/apparel exports to the U.S. Other factors that may have played a supporting role, however, include the proximity to the U.S. market, the 2000 miles of shared border, low production costs and the country's extensive experience in the sector.[60] Added to these complementary factors is the existence of Mexico's modern infrastructure, including airports, sea ports, railways, highways, industrial parks and communications, which are all necessary to keep abreast of the constant and rapid changes in the industry, that result

---

[58] Luxner, "CBI Grows," 73

[59] Cortazar, "Mexico's LaLaguna Excels in Maquila," *Apparel Industry International* (March/April 1998): 1.

[60] Cortazar, "Mexico's Export Competitiveness," 1.

from consumer tastes.[61] However, since these conditions existed prior to NAFTA, most changes that occurred after 1994 may not be attributable to the Agreement.

In addition, Mexico's ability to intensively utilize its workforce gives the country a competitive advantage as it relates to lower wages and higher productivity.[62] This situation has affected the U.S. textile/apparel industry which in 1999 contributed to the U.S. trade deficit with Mexico.[63] In 1995, U.S. exports of apparel to Mexico, which included cut pieces to be assembled into apparel were up 21.2% over 1994 to $1.3 billion.[64] However, imports from Mexico were $3 billion in 1995, an increase of 60% over 1994 and 38% more than in 1993.[65] Meanwhile, employment in the U.S. textile/apparel sector which totaled 1,484,000 in 1995,[66] has for the past couple of years consistently declined. This drop in employment and also in output and income has been as a result of a number of recent developments including growth in Mexican textiles spurred by NAFTA and the devaluation of the peso, a worldwide overcapacity in textiles, a surge in imports related to the Asian currency crisis, and growth in illegal transshipments.[67]

---

[61] Ibid.

[62] McAllister Isaacs III, "Trade Agreements: How They Affect U.S. Textiles," *Textile World* 150, no. 3 (March 2000): 1.

[63] Ibid.

[64] "ATMI Reports NAFTA Benefits," *Bobbin Magazine*, available at *www.bobbin.com*; Internet; accessed March 1996.

[65] Weintraub, *NAFTA at Three*, 42.

[66] Ibid., 41.

[67] McAllister III, "Trade Agreements," 1.

Mexican apparel and textile firms are becoming increasingly more important in the U.S. network of transnational enterprises, particularly as U.S. textile firms, manufacturing and retailing, pursue the opportunities made available through NAFTA to capture and exert control over segments of the industry. More Mexican companies are improving their facilities and upgrading their operations as they become incorporated into the production pipelines of major U.S. firms.[68]

Benefits of NAFTA to Mexico

NAFTA has fostered new types of relationships between U.S. and Mexican firms, and encouraged more long-term commitments on both sides of the border. Production sharing agreements and mutual production alliances have given rise to new sourcing centers in certain areas of the U.S., such as in the Southeastern region, and Southern California. In Southern California, for example, the number of apparel manufacturers sourcing in Mexico increased four fold between 1992 and 1998.[69]

The new type of alliances that have developed in the post NAFTA period differs a great deal from the pre-NAFTA production sharing relationships. The former encompasses corporate/legal and financial ties between the U.S. companies and their Mexican affiliates - shared ownership of production facilities, wholly owned subsidiaries in Mexico, and capital investment in maquiladoras. They represent a higher level of transnational integration, with larger investments of time, money, personnel and closer

---

[68] Kessler, "New NAFTA Alliances Reshape," 1.

[69] Ibid.

monitoring by U.S. lead firms.[70] These types of emerging relations between the U.S. and Mexico have prompted observations that regional trade arrangements such as NAFTA play a more significant role in business decisions and sourcing patterns than multilateral trade agreements, such as the 1994 Uruguay Round Agreement.[71]

NAFTA seems to have had the greatest impact on Mexico, more than on any other of the members in the group. It has been advanced that NAFTA has helped to institutionalize the domestic reforms that Mexico began adopting in the 1980s, by locking in the reforms in such as way that it would be difficult for them to be reversed.[72] Whereas it took more than five years for Mexico to shake off the recession which began in the early 1980s, it took only about two years after the 1995 economic slowdown for Mexico to begin the recovery process. Of course, it can be argued that the reason for the shorter economic contraction was because the U.S. took a more active role in ensuring the quick recovery of the Mexican economy in the 1990s because of the binding ties that NAFTA created for the U.S. An extension of this argument is that had it not been for NAFTA, the U.S. would not have felt obliged to step in and assist with the recovery, including the resolution of the pesos crisis in 1994.. Whatever the reason given, it is clear that NAFTA played an instrumental role in the U.S. assistance. NAFTA helped Mexico adhere to the macroeconomic policy measures to deal with the problems. The

---

[70] Ibid.

[71] Brenda Jacobs, "Have CBI Nations Found a Full Package Opportunity?" *Bobbin* (July 1998): 70 - 71.

[72] Jeffrey A. Frankel, *Regional Trading Blocs in the World Economic System* (Washington, D.C.: Institute for International Economics, 1997): 216.

country was constrained in raising tariffs and erecting other import barriers against U.S. goods (as it had done previously during the 1982 recession) since that would have been in violation of the Agreement.[73]

There are also predictions that NAFTA will provide the environment in which more rapid structural domestic reforms can take place - that it will encourage a larger capital inflow into Mexico which would increase its capital base and "enhance its long run growth potential".[74] It has been suggested that by strengthening Mexico's investment climate through improvement in financial markets and improved dispute settlement mechanisms, more investment from non-NAFTA sources will be attracted to the country, as can already be identified by the relocation of some firms, particularly in the garment industry, to Mexico.[75]

It is felt that although some segments of the economy, for example, farm workers, may lose their jobs because of NAFTA, the net loss of agricultural income will be offset by the gains in industry and services, resulting in an overall gain.[76] The U.S. Department of Labor reported that 112,000 U.S. jobs have been lost as a result of trade with Mexico and the closing of plants in the U.S. However, a recent University of California study cited that approximately 200,000 jobs "directly related to trade with Mexico" have been

---

[73] Weintraub, *NAFTA at Three*, 27, 30.

[74] Lawrence R. Klein and Dominick Salvatore, "Welfare Effects of the North American Free Trade Agreement," *International Trade in the Twenty-First Century*, ed. Khosrow Fatemi (New York: Elsevier Science Inc., 1997), 152.

[75] Anthony Gonzales, *Reciprocity in Future ACP/EU Trade Relations with Particular Reference to the Caribbean* (Trinidad and Tobago: Institute of International Relations, October 1996), 12.

[76] Klein and Salvatore, "Welfare Effects," 152.

created in the U.S. since NAFTA's implementation.[77] Also, that the manufacturing sector in Mexico will become more competitive as discriminatory government regulations are removed and as improvements in the border infrastructure facilitate a more efficient, faster, and cheaper movement of goods.[78]

Benefits of NAFTA to the U.S.

Although Mexico is expected to be the greatest beneficiary of the Agreement, there are indications that some important benefits will also accrue to the U.S. It is hoped that NAFTA would improve the U.S. export performance and increase exports to Mexico in a more dynamic manner, thus creating higher levels of employment domestically. The Agreement provides U.S. firms with the capability of combining skilled and semiskilled workers and cheap labor to create a type of production sharing scheme that will benefit U.S. firms.[79] U.S. companies will be able to import labor-intensive components from Mexico which will allow them to keep other operations at home. The low paying jobs that are expected to be lost to Mexico, would most likely have been lost anyway because of the "rapid structural changes and globalization taking place in the world economy."[80]

In terms of investments, NAFTA helps to reduce the risks that U.S. and other foreign investors face as they invest in Mexico. It provides somewhat of a stable environment that will encourage the return of capital that left Mexico in the pre-NAFTA

---

[77] Susan S. Black, "Life After NAFTA," *Bobbin* (May 1999).

[78] Suarez, "The Caribbean in Economic Transition," 129.

[79] Bulmer-Thomas et al, "Mexico and the North American," 7.

[80] Klein and Salvatore, "Welfare Effects," 155.

period.[81] Most important to the U.S., NAFTA provides the means to ensure that the preferences derived from the Agreement are kept among the partners and do not leak to non-members, making Mexico a "backdoor" to the U.S. market particularly for the Asian companies. This is in contrast to the opinions of the U.S. critics of NAFTA such as organized labor, who suggest that NAFTA would open new backdoors to the U.S. Proponents however, argue that "rather than opening new backdoors, NAFTA seeks to close them."[82]

Critics of NAFTA

Despite these benefits to both Mexico and the U.S., NAFTA has had its detractors. Opponents of NAFTA in the U.S. are primarily concerned about the jobs that would be "sucked out" from the U.S. and the impact of increased industrial activity in Mexico on the environment. At the same time, non NAFTA members from the region complain about the potential negative impact the Agreement can have on other countries in the hemisphere.

From the time NAFTA was proposed, opposition to the Agreement was strongest among labor organizations such as the AFL-CIO, non-exporting U.S. firms, and environmental groups who felt there would be increased pollution along the U.S./Mexican border. The former predicted that NAFTA would cost the U.S. jobs and hold down wages in both the U.S. and Mexico. They cited figures which suggest that in some regions and industries within the U.S., NAFTA has directly contributed to

---

[81] Ibid.

[82] Bulmer-Thomas et al, "Mexico and the North American," 31.

unemployment. In the textile and apparel industry, some estimates place the job loss as high as 400,000 since 1993,[83] and in South Carolina alone, the sector's workforce dropped from 29,000 to less than 14,000.[84]

However, according to Gary L Shoesmith, a professor at Wake Forest University, NAFTA should not be blamed for these results. He defended the Agreement by showing that an increase in 11.5% or $11 billion worth in textile shipments means that "increased automation and productivity, not trade" are responsible for the loss of jobs. He further contended that "NAFTA has resulted in lower prices for U.S. consumers and created many export opportunities for U.S. companies, all the while being mistakenly blamed for hundreds of thousands of American job losses."[85]

Critics of NAFTA have also used the U.S. merchandise balance-of-payment position with Mexico to bolster their case against the Agreement. The U.S. enjoyed a merchandise trade surplus with pre-NAFTA Mexico of about $1.3 billion; however, after the Agreement, this had turned into a deficit of $22 billion by 1999.[86] The correlation that is made between NAFTA, job losses, and increased imports is however weakened by the observation made by Weintraub. He asserted that exports do not automatically

---

[83] McClenahen, "NAFTA Works," 1.

[84] Jules Abend, "US Contractors Diversity," *Bobbin* 41, no. 4 (December 1999): 1

[85] McClenahen, "NAFTA Works," 1.

[86] MacArthur, *The Selling of Free Trade.*

equate with job growth and imports with job losses.[87] as is the case where imports of components may be associated with exports of finished goods.[88]

Those voicing opposition to the Agreement warned that whereas the U.S. and Canada may be committed to preventing nonmember countries from "invading" their markets, Mexico may be willing or even eager to encourage such action. It is felt that foreign companies, particularly from Japan and the Asian newly industrializing countries, will be able to utilize Mexico as an assembly site or distribution center from which their products could be "sneaked" into the U.S. market.[89] This situation, usually referred to as the "Trojan Horse" issue, deals with the possibility where nonmember countries will take advantage of a preferential trade arrangement in order to circumvent import barriers and gain easier access to the market of one or more member countries. Critics warn that Mexico will accommodate such a situation by becoming a huge "export platform" or entrepot, via which products from other countries will be brought into the U.S. on an unrestricted duty-free basis, as a result of their companies setting up "screwdriver-type" assembly plants or distribution centers in Mexico.[90]

Mexico is seen as vulnerable to this type of activity for a number of reasons. One is the abundance of low cost labor and high unemployment rates which make the country an attractive site for the establishment of labor intensive manufacturing or

---

[87] Weintraub, *NAFTA at Three*, vii.

[88] Ibid.

[89] James Weekly, "The Trojan Horse Issue in a North American Free Trade Area," *Multinational Business Review* 1, no.2 (Fall 1993): 19 - 25.

[90] Ibid., 19 - 25.

distribution operations, as well as an eager recipient of such activities. Another is the country's extensive involvement in the maquiladora phenomenon, which has created both a base of experience and a physical and legal infrastructure that would support an expanded entrepot/export platform role. A third issue is the new openness to imports and foreign direct investment which the Mexican government initiated and has promoted since the mid 1980s. Yet another reason for the country's vulnerability is the recent buildup of direct investment in Mexico by Japanese and other Asian companies, which some view as a positioning strategy targeted toward the U.S. market.[91] As was mentioned previously, this last issue was one of the main concerns for many in the U.S. during the debates about a NAFTA between the U.S. and Mexico; and it played a major influence in the stringent rules NAFTA employs to keep nonmembers from benefiting and from exploiting the trade pact.

Caribbean Concerns About NAFTA

In the years since CUSFTA was negotiated, leaders from the Caribbean nations expressed real concerns about losing preferential market access, concessions and other advantages first to a North American bloc and then to Mexico when NAFTA was signed in 1993. The opinion that permeated some Caribbean official policy-making circles was that CUSFTA was an attempt to construct a North America fortress similar to the Single European Market (SEM) of 1992. It was viewed as another example of the erosion of historical commitments by the industrial nations to the Caribbean region, which was suffering from neglect, and was being prepared for an existence without market

---

[91] Ibid.

preferences or foreign aid of previous levels.[92] As a result, Caribbean governments embarked on a strategy to protect their interests which they perceived as being in danger. These governments undertook two main series of actions. They resolved to sign framework agreements with the U.S. in July 1991, soon after the latter declared an interest in forming a western hemisphere free trade area. They also sought to negotiate NAFTA parity for the Caribbean nations which were signatories to the CBI.

There is a school of thought that has a somewhat optimistic view of the integration process. This neoliberal perspective, shared by Caribbean powerholders who envision an unfolding environment permeated with increased foreign investment, sees the new restructuring and realignments of countries, economic sectors and businesses as a win-win scenario for the region.[93] A broader cross section of the anglo-Caribbean community, however, shares a different perspective. It views NAFTA as holding disastrous consequences for Caribbean economies - as another internationally binding mechanism that will further exploit the region as the U.S. reaps its benefits.[94] The small economies in the subregion were concerned that NAFTA will neutralize the trade preferences they receive under CBI through a number of ways:

1) Trade Diversion: Reduced U.S. demand for supplies from CBI countries as a result of the increased demand that would be diverted to Mexico in response to the elimination of quotas and phasing out of tariffs on Mexican products.

---

[92] Marshall, "NAFTA/FTAA," 673 - 700.

[93] Ibid., 679.

[94] Ibid.

2) Investment Diversion: The USITC in 1992 concluded that "NAFTA will introduce incentives that will tend to favor apparel investment shifts away from CBERA countries to Mexico."[95] The belief is that NAFTA could negatively impact U.S. investments in the Caribbean countries since such capital would be inclined to move to Mexico.

3) Relocation of Production Capacity: That existing production facilities or capacity in CBI countries will be closed or transferred, particularly in industries such as assembly operations like apparel, which can easily be relocated.

4) Contraction of Economic Activity: That the loss of trade and investment opportunities would precipitate a decline in business confidence and economic activity, undermining development prospects throughout the region.[96]

The Caribbean countries believed that by seeking NAFTA parity, these potential effects on their economies would be greatly diminished. Spearheaded by the government of Jamaica, whose prime minister was responsible for external negotiations for CARICOM, efforts were made to encourage the U.S. to implement certain provisions that would give the Caribbean exports similar treatment in the U.S. market as was afforded Mexico.

---

[95] "Caribbean Basin Economic Recovery Act, 12th Report 1996. Investigation No. 332-227: Andean Trade Preference Act, 4th Report 1996. Investigation No. 332-352. Impact on the U.S. USITC Publication 3058" (Washington, D.C.: USITC, September 1992): 11.

[96] Richard Bernal, "Influencing U.S. Policy Toward the Caribbean: A Post Cold War Strategy," in *The Caribbean: New Dynamics in Trade and Political Economy*, ed. Anthony T Bryan (Miami: University of Miami North-South Center, 1995) : 220.

However, the Caribbean governments have been criticized in some circles for the manner in which they relentlessly pursued the issue of NAFTA parity instead of focusing their energies on other strategies such as increasing the competitiveness of Caribbean exports that would enable them to survive in this increasingly liberalized and globalized world economy. As Don Marshall has pointed out, ". . . the Caribbean countries expended political energies in the pursuit of CBI parity and spent less effort putting in place a regional strategy and approach to NAFTA".[97] By focusing only on NAFTA, the Caribbean is overlooking an important issue relating to the new demands of global competition. Marshall argued that the Caribbean leaders' concern about Mexico's competitive edge was misplaced for a number of reasons:

> . . . rewarding piecemeal concessions in conformity with neoliberal while ignoring the need to improve the knowledge-infrastructure of industries and services, will not result in increased foreign direct investment inflows to the region nor create a viable competitive economic platform.[98]

CARICOM's strategy of pursuing NAFTA parity is further criticized in that Mexico's competitiveness and inflow of investment into the country did not begin with NAFTA, but were rather a continuation of a trend that began in the mid 1980s. Also, investment diversion vis-à-vis Mexico should take into consideration the importance and result of Mexico's "domestic reforms, its retooling efforts, its proactive response to hemispheric free trade designs, the supportive role of the U.S., and the "band wagon"

---

[97] Don Marshall, "NAFTA/FTAA," 680.

[98] Ibid., 681.

effect stimulated by Mexico's enhanced profile during and since the NAFTA talks.[99] Marshall thinks that investments were drawn to Mexico beginning in the pre NAFTA period of the mid 1980s in large part due to its reforms and restructuring programs, and that NAFTA simply reinforced that trend.[100]

Despite these observations, some reports suggest that NAFTA has affected the competition between Caribbean countries and Mexico.[101] An ITC examination of U.S. imports since NAFTA showed an increase in Mexico's import share, but a relatively stagnant share for the Caribbean region. When the analysis is focused solely on trade directly related to NAFTA and CBERA, the effects are more pronounced showing that shares for the Caribbean region declined while Mexico's shares increased significantly.[102] The ITC looked at the apparel sector and found that Mexican imports were growing three to six times as fast as imports from CBERA partners.[103]

The issue of trade diversion from the Caribbean to Mexico is mostly addressed in the textile/apparel sector. In the three years 1991 to 1993 prior to the implementation of NAFTA, U.S. apparel imports from CBERA countries and Mexico rose at similar rates of around 26% per year. However, during the three year period after NAFTA went into

---

[99] Ibid., 682.

[100] Ibid.

[101] "Caribbean Basin Economic Recovery Act, 12th Report 1996. Investigation No. 332-227: Andean Trade Preference Act, 4th Report 1996. Investigation No. 332-352. Impact on the U.S. USITC Publication 3058" (Washington, D.C.: USITC, September 1992): 11.

[102] "NAFTA Parity Analysis: The Caribbean Basin," *Wireline*, American Wire Producers Association 8, no. 2 (June 1998): 1.

[103] Ibid.

effect (1994 - 1996) apparel imports from the region grew by only 15% per year, while imports from Mexico increased by 44% per year.[104] In 1996, U.S. apparel imports from CBERA countries rose by 11%. representing the smallest increase since 1990.[105]

The U.S. Department of Commerce in 1996 suggested that NAFTA trade also seems to be displacing textile and apparel imports from the Far East. In 1995, the department figures reveal that while U.S. exports of apparel to Mexico, which included cut pieces to be assembled into apparel for reshipment back to the U.S., were up 21.2% over 1994 to $1.3 billion, imports from China fell 13%, from Korea 7%, from Taiwan 5%, and from Hong Kong 4% from 1994 figures.[106] These Asian countries, it should be remembered, had established apparel facilities in the Caribbean countries from which they exported to the U.S. market. These figures and reports had provided additional stimulus to the Caribbean governments to intensify their efforts to gain NAFTA parity.

Making The Case for NAFTA Parity

Proponents of the NAFTA parity or CBI Enhancement legislation in both the U.S. and the Caribbean, cited a number of reasons involving humanitarian, good trade, domestic and foreign policy, for their strong support and lobbying efforts in Congress. Some members of Congress who supported the passage of the CBI parity Bill, considered it as a way to aid the four Caribbean Basin nations whose economies were devastated by Hurricanes Mitch and Georges in 1998. However, the broadest support

---

[104] Caribbean Basin Economic Recovery Act, 12th Report .

[105] Ibid.

[106] "ATMI Reports NAFTA Benefits," *Bobbin Magazine* (March 1996).

came from those members who offered domestic, economic and security-interest reasons as their rationale for backing the legislation.

Parity Makes Good Sense for the U.S.

U.S. proponents of NAFTA parity, including the export component of producer associations of the textile/apparel industry, joined forces with Caribbean governments in lobbying for passage of the Bill. They frequently cited the benefits that would accrue to the U.S. as well as to the countries in the Caribbean as a result of the U.S. granting parity to the economies of the CBI region. These proponents saw NAFTA parity as a way to boost sourcing options and competitiveness, particularly in certain industries, the most prominent being the textile /apparel industry. They predicted that the U.S. could increase textile shipments by $8.8 billion and increase related employment by 120,000 jobs by 2004.[107] Supporters of NAFTA parity also hoped that it would allow the U.S. textile and apparel industry to become more competitive internationally by building on the existing, production relationship between the U.S. and Caribbean firms and workers; and strengthen an already established system put in place by governments in the Caribbean region that discourages illegal textile transshipment from the East and South Asian countries of illegal and low cost imports.[108]

Proponents argued that the main gain from NAFTA parity would include the expansion of U.S. trade which moved from $1.6 billion in 1984 to $4 billion in 1999. At the same time, exports from the Caribbean to the U.S. increased much slower from $1.8

---

[107] Burt Wilkinson, "Much Hope Hangs on Trade Bill," *Interpress Service* (November 8, 1999).

[108] Richard Bernal, "Changing Trade Trends Confronting the Caribbean," *CAIC Magazine* 1, no. 1, Issue 1 (1993).

billion in 1984 to about $2.1 billion in 1997.[109] This issue is significant in that prior to the enactment of the CBI, as mentioned earlier, the U.S. suffered large trade deficits with the region. However, the turnaround in trade has resulted in the surplus increasing from $0.3 billion in 1986 to $2.4 billion by 1997.[110] In a position paper prepared for leaders in the region arguing their case earlier in 1999, it was stated that "this favorable trade performance for the U.S. demonstrates that the CBI has been very beneficial to the U.S. industry and labor".[111] The implication is that legislation to further enhance the CBI, will benefit the U.S. further.

Senator William Roth, chairman of the Senate Finance Committee, offered that CBI parity would "encourage new economic opportunities and a path toward both political and economic renewal for the countries involved, and will promote opportunity and economic growth here at home."[112] Joining him in congressional support was Senator Bob Graham of Florida, who in his testimony before the sub-committee on Trade of the Committee on Ways and Means of the House of Representatives, reiterated that passing the legislation for parity would be in the U.S. own best interest, in that it would help reduce the flow of illegal drugs and illegal immigrants to the U.S.[113]

---

[109] Wilkinson, "Much Hope Hangs," 1.

[110] Ibid.

[111] Ibid.

[112] "U.S. Bill Could Return Lost Jobs," 1.

[113] *The Jamaican Observer*, "Strong Support for NAFTA Parity for Caribbean Countries " (March 25, 1999): 1.

Another influential supporter of parity, Erik Autor, the Vice President and International Trade Counsel of the National Retail Federation, observed that the passage of the legislation would provide the U.S. with the opportunity to set the standards for trade liberalization for the rest of the world to follow, while promoting export growth for the U.S. machinery and equipment manufacturers.[114]

Other proponents suggested that parity would allow U.S. companies to form strategic partnerships with companies in the region. These partnerships would be able to provide tariff and quota relief to help keep U.S. apparel manufacturing costs down, and protect and keep U.S. textile and manufacturing jobs at home.[115] With these trade partnerships in the CBI countries, U.S. companies would be able to lower the average production costs of apparel exports and in so doing help make the U.S. apparel industry more competitive vis-à-vis the Asian countries.[116]

The call for "trade, not aid" has often been heralded by government leaders throughout the region in the debate surrounding NAFTA parity. Parity is thus presented as a strategy to encourage private sector initiative and lessen the dependence on government subsidies. It would allow U.S. and Caribbean apparel companies to work together to harness their strengths into a competitive advantage.[117] It was suggested that the Bill would help the economies in the region develop, giving them the potential to buy

---

[114] Ibid.

[115] "CTPA: A Good Deal for America," *Apparel Industry Magazine* on the web, *http://www.aimagazine.com;* Internet; accessed November 12, 1999: 1.

[116] Ibid.

[117] Ibid.

more American goods and subsequently helping to preserve the U.S. trade surplus with the region, while supporting more American jobs domestically.[118]

Supporters feel that the partnerships developed through such an arrangement could be utilized as an effective foreign policy tool between the U.S. and the CBI countries since they would lead to continued improvements in labor practice, environmental standards, and greater political and economic freedom in the region.[119]

Benefits of NAFTA Parity to the Caribbean: The U.S. Perspective

NAFTA parity was presented as a way to build on the established US/CBI framework as increased trade gives rise to higher levels of job growth both in the U.S. and in the Caribbean.[120] Advocates of parity insisted that it was necessary because in its absence there would result stagnant or declining investments in the CBI region from the U.S., which would subsequently lead to possible economic and political instability as living standards are diminished. Such a situation would warrant increased aid flows from the U.S. to the region which would eventually cost the U.S. more, than if it had taken steps to assist the countries through parity, in boosting economic development and encouraging the influx of foreign investment.[121]

Parity was thus regarded as a cost-effective, economic foreign policy tool that would promote regional development, and enable countries to become less dependent on

---

[118] Ibid.

[119] Ibid.

[120] Richard Bernal, "Changing Trade Trends Confronting the Caribbean," *CAIC Magazine* 1.1 (4th quarter, 1996): 1-23. Dr. Bernal is Jamaica's ambassador to the U.S. and has been instrumental in leading the fight for CBI parity.

[121] Manuel Gaetan. "Is There Logic in CBI Parity?" *Bobbin* (July 1996): 1.

foreign aid, particularly at a time when these funds from industrialized countries are being sharply cut back - "parity represents a tangible extension to the "trade not aid" approach."[122] Parity for the Caribbean, it was argued, would strengthen the trade links between the U.S. and the subregion leading to greater cooperation in other areas such as narcotic interdiction, anti-corruption activities, and the struggle against terrorism and international crime.[123]

Opponents of the CBI Parity

Although the legislation for parity received support from various segments within the U.S., there were some opponents to the Bill even among the textile/apparel industry such as knitwear, who argued that it would contribute to ongoing import-related declines in production and employment.[124] Those opposed to parity cited a number of factors as to why it would not have been in the best interests of the industry in the U.S. Congressional representatives from U.S. garment producing states who voted consistently against the Bill, expressed concerns that exports from countries with cheap labor like those in Latin America and the Caribbean could undermine the market in the U.S.

The American Apparel Alliance, a consortium of apparel manufacturers and contractors in the U.S., took the view that the trade bill was "decidedly one-sided" with a totally anti-U.S. apparel production character.[125] They suggested that American jobs

---

[122] Bernal, "Changing Trade Trends," 1-23.

[123] Ibid.

[124] "Caribbean Basin Economic Recovery Act, 12th Report," 26.

[125] "American Apparel Alliance Responds to Statements Made Concerning Pending Trade Legislation," available from *http://www.Onlinetextilenews.com;* Internet (Novermber 1, 1999).

would be lost and transferred overseas as opposed to jobs being created as proponents had espoused.[126] In October 1996, U.S. apparel factories employed 849,000 workers nationwide. However, by October 1997, there were 802,000 workers or 47,000 fewer jobs.[127] Critics of the Bill attributed many of these losses to trade policies which have made manufacturing more attractive in other countries with a large supply of cheap labor.[128] Even more industry job loss have been tied to the passage of NAFTA with an estimated 400,000 industry workers losing their jobs since the implementation of the Agreement.[129]

Critics also argued that the legislation would lead to reduced earnings for Americans as the shift from manufacturing to the service sector comes about because of the effects of such bills. They contended that this will be the case since most American jobs are in the service sector which has historically paid less than the manufacturing sector.[130] Organized labor believed the legislation would accelerate the migration of U.S. apparel jobs to other markets. It is estimated that because of the legislation, approximately $1 billion will be "taken out" of the Federal Treasury (as a result of tariff revenues foregone) over the next 5 years, and that most of the money will go to enhance

---

[126] Ibid.

[127] "CTPA: A Good Deal for America," 1.

[128] Ibid.

[129] "Garment Workers, Apparel Companies Unite to Blast Caribbean Free Trade Bill"; available from *http://wwwOnlinetextilenews.com;* accessed September 10, 1999.

[130] "CTPA: A Good Deal for America," 1.

the profits of offshore apparel companies and American retailers instead of workers or governments in the Caribbean.[131]

A spokesman for a coalition of small and mid-sized apparel companies and garment workers that includes The National Knitwear and Sportswear Association, Union of Needletrades, Industrial and Textile Employees and Apparel Contractors Alliance argued that:

> A trade bill sponsored with the stated intent of spurring economic growth in the Caribbean and Central America is instead likely to funnel hundreds of millions of dollars into the pockets of large apparel corporations such as Cayman Island-based Fruit of the Loom, Inc. and Chicago-based Sara Lee Corp.[132]

This sentiment was shared by another critic of the Bill, Joseph Rodriguez, Executive Director of the Los Angeles-based Apparel Contractors Alliance of California who warned that it was highly unlikely that "a single cent" of the estimated $1 billion will reach the Central American and Caribbean populations for which it is intended ..."the vast majority of this huge sum will go directly into the pockets of a handful of huge American corporations..."[133] Companies such as Fruit of the Loom, which critics charge recently incorporated itself in the Cayman Islands in order to avoid paying U.S. taxes, could benefit from the legislation more than U.S. based companies. The company which was once a large employer in the U.S., is now the single largest employer in Honduras and El Salvador, with over 20,000 workers in those two countries. With such capacity, it

---

[131] "Garment Workers, Apparel Companies Unite to Blast Caribbean Free Trade Bill", 1.

[132] Ibid.

[133] Ibid.

could gain as much as $200 million over the next 5 years.[134] The company is reported to have saved approximately $150 million already by taking advantage of the cheap labor supply in those countries.

Opponents of the Bill also charged that if the goal of the policy is to create a prosperous middle class in these countries who can buy more American goods, then it appeared as though just the contrary was occurring. They cited statistics which showed that as trade with the Caribbean Basin has increased, wages paid to workers there have fallen significantly. One report showed that since 1989, trade with Honduras and El Salvador had increased by over 250%, while wages in those countries had dropped by 57% and 29% respectively.[135]

The President of the Union of Needletrades, Industrial and Textile Employees (UNITE) criticized the Bill in that it regarded textile jobs, which are usually low-tech and held by low income workers in America's small towns and inner cities, as disposable.[136] Opponents also consider the issue of transshipment as a potential problem. They believe that customs will not be able to guarantee enforcement of yarn and fabric origin requirement for the number of countries involved in the trade agreement, and that the requirements for the use of U.S. fabric and yarn will multiply the "enforcement burden and provide still more opportunities for corruption and fraud."[137]

---

[134] Ibid.

[135] Ibid

[136] Ibid

[137] "American Apparel Alliance Responds to Statements Made Concerning Pending Trade Legislation," available from *http://www.onlinetextilenews.com;* Internet; accessed November, 1999.

The Caribbean Basin Trade Partnership Act (CBTPA) in May 2000, will remain in effect until the FTAA is established which is expected to be in 2005, or until a similar arrangement is introduced, whichever occurs earlier. The issue now becomes one of how effectively will the beneficiary Caribbean countries be able to capitalize on this opportunity and increase their competitiveness in this protected market. How quickly and effectively they utilize the opportunities afforded in the CBTPA to build competitive textile/apparel industries that can hold their own in a trade environment based on reciprocal relationships, will determine whether the preferential legislation has been of any benefit to the economies involved.

The CBTPA

After years of aggressive lobbying by the Caribbean governments, in particular by the Jamaican government which is also responsible for the region's external economic negotiations, for a NAFTA parity-like agreement for the CBI beneficiary economies, the Clinton Administration, as indicated earlier, finally signed into law the U.S.-Caribbean Basin Trade Partnership Act (CBTPA), as part of the African Growth and Opportunity Act (AGOA) in May 2000. It is the first major trade bill to be passed in the U.S. Congress since 1995, and is considered by various members in the Administration to be a "reflection of America's historic leadership role in international trade."[138]

---

[138] "Africa - CBI Trade Bill Passes Senate: Carousel Provisions Ignite EU-US Tensions" *Bridges Weekly Trade News Digest* 4, no.19 (May 16th, 2000): 1 .

Caribbean leaders are of the impression that the new legislation would open and expand regional markets to the U.S investors and exporters while U.S. supporters view it in terms of it being vital to U.S. competitiveness.

To those supporters in the U.S. Administration, the legislation is good trade and foreign policy. The AGOA and the CBTPA serve to advance U.S. economic and security interests by strengthening relations between the U.S. and the two regions, expanding two-way trade, and creating incentives for both regions to continue reforming their economies while increasing their participation in the global economy. It is also believed that the Bill will contribute to improved economic performance in the U.S., by encouraging the opening of markets and the reduction of poverty in the targeted countries where there is a potential market of hundreds of millions consumers of American exports.[139]

As Robert Scott insists, "NAFTA parity is all about the apparel market".[140] The Bill enhances the provisions of the CBI to provide for a specified transition period, similar preferential tariff and quota treatment as given that of textiles and articles imported from NAFTA countries to the same type of articles from CBI beneficiary countries. It also provides NAFTA parity for some products which were excluded in the original CBI legislation.

---

[139] "Details of the Trade and Development Act of 2000," *U.S. Newswire* (Washington , D.C. : White House Fact Sheet, May 18, 2000). 1.

[140] Robert E. Scott, "Rebuilding the Caribbean: A Better Foundation for Sustainable Growth," Briefing Paper (Washington , DC.: Economic Policy Institute, March 1999): 1.

One of the main driving forces behind the passage of the Bill was the strong advocacy stance taken by the governments of the Caribbean in support of their textile and apparel interests in the region. More importantly, the forceful lobbying efforts by the U.S. supporters of the legislation, mainly the apparel manufacturers and their industry groups, certainly added weight to the push for the passage of the Bill. In the intervening years between NAFTA and CBTPA, and especially those under review (1994 - 1999), apparel imports from Mexico have increased 611%, while imports from CBI have increased about one third that rate. In 1998, the CBI region accounted for less than 23.8% of the U.S. garment imports. This represents a decline of 1.4% point from the 25.1% market share in 1997.[141] Those advocates of the CBI Enhancement Bill who viewed the CBI market as an important one for the U.S., also believed that the Bill in particular would benefit American workers, consumers and businesses as much as it would the economies of the Caribbean Basin.

The CBTPA offers temporary trade benefits to CBI countries and will "place them on a more equal competitive basis with Mexico in the U.S. market, and reinforce the region's trend toward more openness in the conduct of economic policy."[142] For the Caribbean, the CBTPA will extend preferential tariff treatment to certain textiles and apparel products assembled from U.S. fabric, and to textile handicrafts and all non-textile products currently excluded from such treatment under the existing CBI, for example

---

[141] General Counsel for Jockey International, Testimony submitted to Subcommittee on Western Hemisphere (Washington, D.C.: March 2, 1999).

[142] Ibid.

canned tuna and certain leather footwear.[143] The Agreement will also reduce duty rates for covered textiles by up to 100%, and such products will be free from quantitative restrictions. For other products, the tariff rate would be reduced up to 100% of the difference between the current rate and the rate applicable to Mexican goods under NAFTA. Safeguards provisions on covered textile products will be afforded, and tariff benefits could be modified under the same conditions as in the NAFTA in the event of disruptive import surges.[144]

Regarding non-U.S., non-regional fabric, textile and apparel products imported into the U.S., they would be subject to tariff preferences levels (TPLs), 95% of which will be allocated to the seven biggest shippers in the CBI - the Dominican Republic, Costa Rica, Jamaica, Guatemala, El Salvador, Honduras and Haiti.[145] Among the other important provisions included in the legislation are:

- preferential tariff and quota treatment would be accorded to those products made from fabrics produced in the CBI, that are knit-to-shape, and/or made from fabric knit in the region of U.S. yarn.[146]
- 5 years duty free and quota free treatment to textile and apparel items imported into the U.S. from CBI beneficiary countries that are: a) assembled in a CBI beneficiary country from fabrics wholly formed and cut in the U.S. from yarns formed in the

---

[143] Ibid.

[144] Ibid.

[145] International Trade Administration, Otexa, Textile and Apparel Legislation (Washington, D.C.: ITA, May 2000).

[146] Ibid.

U.S.; b) cut in a beneficiary country from fabrics wholly formed in the U.S., from yarns wholly formed in the U.S., and assembled in a CBI beneficiary country; c) identified as hand loomed, handmade or folklore articles.[147]

As a safeguard against transshipment, the law provides that the President can deny an exporter benefits under the Bill for 2 years if there is evidence that an exporter has knowingly engaged in textile/apparel transshipments.[148]

Supporters of the Bill hope that it encourages the development of trade and investment policies in the region that will help the beneficiary countries make the transition to and facilitate their subsequent participation in the Free Trade Area of the Americas (FTAA). They would like to see the benefits derived from the new legislation be a springboard for the countries to further open their markets to U.S. products , services and investment. They also want the Bill to act as a catalyst for the increase and acceleration of economic reform, and stimulate new value added industries in the region and increase Caribbean competitiveness as the FTAA approaches.[149] Supporters suggest that it will also encourage additional U.S. exports of cotton and yarn and strengthen the international competitive position of the U.S. textile industry.[150] The CBTPA, which extends similar preferential market access enjoyed by Mexico under NAFTA to Caribbean Basin countries, is envisioned to have important economic and social benefits

---

[147] Ibid.

[148] Ibid.

[149] The United States Trade Representative (Washington, D.C.: USTR, September 1999).

[150] "Details of the Trade and Development Act of 2000," *U.S. Newswire* (Washington, D.C.: White House Fact Sheet, 2000).

to the beneficiary countries who are able to capitalize on the provisions afforded in the legislation.

Reaction to the CBTPA

Three of the most prominent industry groups in the U.S., who have been at the forefront in supporting the Bill are the American Textile Manufacturers Institute (ATMI), the National Cotton Council (NCC), and the American Apparel Manufacturers Association (AAMA).

The ATMI: Roger W. Chastain, President of the ATMI, fully supports the Bill. He speculated that there should be a significant increase in the export of U.S. fabric and yarn as a result of the Bill. He contends that the trade bill, by giving duty-free, quota-free benefits to apparel from the Caribbean and Sub-Saharan Africa made from U.S. yarn and fabric, will also help the U.S. industry:

> . . . We currently export $480 million worth of fabric and $109 million worth of yarn to the Caribbean ... in addition, we export cut pieces of fabric amounting to $3.6 billion, the majority of which is U.S. fabric. If Caribbean trade develops at even half the growth of our exports to Mexico under the NAFTA, we will see major increases in our fabric and yarn shipment to the Caribbean. . . [151]

The ATMI official cited studies which estimate the gains, as a result of the new law, to be valued at around US$ 8 billion in added sales for U.S. textile mills,[152] with textile exports to the Caribbean increasing by $11.0 billion over 5 years while other U.S. textile shipments to U.S. apparel manufacturers and other export markets declining by

---

[151] "ATMI President Addresses Southern Textile Association," available from *http://www .Textileweb.com*; Internet; accessed June 23, 2000.

[152] Ibid.

$2.2 million.[153] In the study conducted by Nathan Associates, an Arlington Virginia based economic and management consulting firm, results showed that the Bill would also increase U.S. textile and textile related employment by 121,000 by the end of 5 years[154] - direct U.S. textile industry employment contributing 63,100 jobs while textile related employment in areas such as cotton, wool, man-made fiber production, chemicals, energy and transportation adding 58,300.[155]

The ATMI president, using the results of the study, declared that the legislation would boost U.S. textile shipments by 11%.[156] Because the CBI countries are the U.S. biggest export customers for yarn and fabric including cut pieces of apparel that are sewn in the Caribbean, the organization thinks that the Bill will present many U.S. textile companies with significant new export advantages and opportunities which the U.S. industry "has been seeking for years".[157] The organization's position is that they are in support of the legislation because it helps the U.S. continue its trend of displacing apparel imports from the Far East and bringing apparel production back to the Western Hemisphere.[158]

The NCC: Several officials of the NCC have come out with strong support for the

---

[153] "Study Shows 'Yarn-Forward' Caribbean Basin Initiative Trade Legislation Would Benefit Industry," available from *http://www.Onlinetextilenews.com ;* Internet; accessed September 20, 1999.

[154] Ibid.

[155] Ibid.

[156] Ibid.

[157] Ibid.

[158] Ibid.

CBPTA, suggesting that it should strengthen the U.S. cotton industry. Robert McLendon, NCC President, thinks that the Bill will be advantageous to the U.S. textile industry.

> . . . this should result in a highly competitive apparel product. These trading arrangements also have the potential to enhance cotton producers' income while improving U.S. cotton and textile competitiveness against increasing imports from Asia. Cotton apparel imports from Caribbean countries are about 3 times more likely to be composed of U.S. cotton than apparel imported from other sources. . . [159]

McLendon speculated that the Bill encourages U.S. firms to combine U.S. cotton and or fabric with further processing in the Caribbean which most likely will result in a highly competitive apparel product. Another NCC official, Vice President W. Duke Kimbrell, who is also Chairman and CEO of Parkdale Mills, a U.S. garment company, reiterated that:

> . . . the regional fabric provisions of U.S./Caribbean trade will be especially meaningful to U.S. yarn manufacturers. Our industry has been under severe economic pressure, and the trading partnerships these provisions will facilitate are expected to boost demand for U.S. made yarn very significantly over the next several years. . . [160]

The AAMA: The AAMA is the national trade association representing roughly 250 U.S. companies that produce more than 85% of the clothing sold at wholesale outlets in the U.S.[161] Jack Morgan, Director of Communications for AAMA, suggested that delaying the implementation of parity will have done nothing to stem domestic job losses

---

[159] Ibid.

[160] "NCC Elated Over House passage of Caribbean Trade Arrangement," available from *http://:www.Textileweb.com;* Internet; accessed May 5, 2000.

[161] Jack Morgan, AAMA Director of Communications, "Congress: The Unravelling of CBI parity and Its Impact on Manufacturers"; available from *http://www.bobbin.com;* Internet; accessed November 1999.

among U.S. apparel manufacturers. On the contrary, it would have increased the advantage of U.S. overseas competitors who already manufacture half the clothing purchased by U.S. consumers. He warned that that share could have increased if the Bill was not passed.[162]

Jim Jacobson, chairman of the AAMA, opined that "the legislation will spur economic growth and reinforce democratization efforts" in many of the countries targeted.[163] He suggested that the Bill and its resulting effects would move the Caribbean and Central American countries closer to trade parity with Mexico, and "enhance the competitiveness of apparel producers throughout the Western Hemisphere".[164]

CBI beneficiaries were involved in drawing up proposals on how the benefits of the Bill should be equitably distributed among the countries. It is interesting to note that the countries that were most vocal and aggressive in pursuing parity are the ones who will benefit least from the quota levels granted. The English speaking CBI countries, except for Jamaica, are relatively small textile/apparel producers when compared with their Central American counterparts, Honduras, and the Dominican Republic, who appear to be the greatest beneficiaries of the legislation.

Does NAFTA Promote Free Trade or Is It Merely Protectionist?

NAFTA can be described as a combination of protectionist and free trade policies, as an agreement that, while it does not totally liberalize trade at the present time, will do

---

[162] Ibid.

[163] "U.S. Apparel Manufacturers Welcome U.S. Senate Passage of CBI/Africa Trade Bill"; available from *http://www.Textileweb.com;* Internet; accessed May 12, 2000.

[164] Ibid.

so increasingly over a period of fifteen years. During that time all tariffs and nontariff barriers between Canada, Mexico and the U.S. will be eliminated.[165] Although the full elimination of tariffs will take fifteen years, about 70% of goods imported from Mexico continue to enter the U.S. without tariffs as soon as the Agreement went into effect. At the same time, more than 50% of U.S. exports to Mexico are tariff-free.[166] In some instances, zero duty rates are already in place. These low rates will undoubtedly encourage U.S. importers to look to Mexico and Canada for their sourcing needs, particularly since those countries share a land border with the U.S., thereby reducing transportation costs and permitting short turnaround times on production and delivery.[167] The Agreement also liberalizes trade in services and foreign investment rules abroad, and tightens the protection of intellectual property rights.[168] It removes the restrictions on the flow of investment within the bloc, and with the removal of duty and other restrictions, it allows firms to "rationalize production within NAFTA and vertically integrate operations through specialization and the achievement of economies of scale".[169]

While tariffs imposed by each NAFTA member have been reduced or eliminated for goods from each nation, the Agreement has not imposed common tariffs for goods

---

[165] Victor Bulmer-Thomas et al., "Mexico and the North," 133.

[166] Ibid.

[167] Brenda Jacobs, "Regional Pacts Produce New Trade Patterns," *Bobbin Magazine* 41, no. 3 (November 1999): 70 - 71.

[168] Ibid.

[169] Gonzales, "Reciprocity in Future ACP/EU Trade Relations," 12.

from non-NAFTA nations. The Agreement has opened up trade in agriculture, energy, textiles and automotive parts and equipment, and in such services as finance, transportation, and telecommunications. It has set rules for government procurement between the three members and for intellectual property rights. The pact has outlined specific methods to deal with subsidies, dumping, investment disputes and unfair practices through its dispute resolution methods.[170] In addition, NAFTA boosted trade within the three nations by almost 90% over 6 years to an estimated $553 billion in 1999, accelerated cross-national investment, and expanded trilateral trade in automotive products, machinery and equipment, industrial goods, forestry products, food and agriculture, energy products and many consumer goods.[171] The following shows the extent of NAFTA trade:

[170] Tom Stundza, "Trade Approaches $600 Billion," *Purchasing* 128, no. 3 (March 9, 2000).

[171] Ibid.

TABLE 5.4

NAFTA Regional Trade (Annual): ($US Billions)

	U.S/Canada/Mexico Trade with World	U.S./Canada/Mexico Trade	% of Trade NAFTA
Pre NAFTA			
1991	908.6	240.62	26.5
1992	910.18	265.03	29.1
1993	1,046.21	293.10	28.0
Post NAFTA			
1994	1,171.07	343.18	29.3
1995	1,325.30	380.56	28.7
1996	1,415.31	421.19	29.8
1997	1,555.75	477.30	30.7
1998	1,587.42	503.26	31.7
1999	1,683.66	552.59	32.8

Source: Bureau of Census

For all but fourteen categories of goods, NAFTA establishes tariff rate quotas for those products that do not meet the strict NAFTA rules of origin, with imports up to the quota level being subject to NAFTA's preferential duty. Over-quota shipments are subject to the MFN rate.[172]

Despite its trade liberalizing effects, NAFTA is also considered to be highly protectionist because of the rules it imposes on both members and nonmenbers. Its rules of origin requires 50% inputs in gross output to qualify for tariff-free treatment and in certain sectors, the rate is much higher. It protects sensitive sectors - agriculture, minerals, banking and textiles and apparel, by imposing stringent North American

---

[172] Jeffrey J. Schott, Free Trade Area and U.S. Trade Policy (Washington, D.C.: Institute for International Economics, 1989): 45.

content and origin requirements. In order for autos, for example, to receive NAFTA benefits, the North American content rule is as high as 62.5%.[173]

The origin requirement pertaining to clothing and textiles are even more discriminatory against non-members by requiring that clothing must be sewn in North America from fabric made within the bloc and that yarn from which the fabric is made must also originate in member states. With the passage of the CBTPA and the AGOA, this requirement was relaxed for CBI and African signatories of the Bills. This triple origin requirement however, will necessitate that Mexican and Canadian clothing manufacturers wishing to export to the U.S., buy yarn and fabric from U.S. or CBI beneficiary countries' mills unless they can gain exemption from the "yarn forward" rule by proving that the materials they need are not available from these sources.[174]

These rules of origin that the NAFTA employs are the principal tools that limit the privileges of preferential trade schemes to eligible partners. They are a set of fairly detailed rules and are designed in such a way as to preclude the circumvention of U.S. Tariff barriers by bringing in products through Mexico[175] - the Trojan Horse Effect. The U.S. has used the "value added" requirement for clarifying and tightening rules of origin requirements. The latter specify a minimum contribution of the final value of a product that must take place within a beneficiary country before the product qualifies for

---

[173] Ibid.

[174] Weekly, "The Trojan Horse Issue," 19 - 25.

[175] Bulmer-Thomas et al., "Mexico and the North, American Free Trade Agreement," 33.

importation into the U.S. on preferential terms. On most products, it has been set at 35% of the value of a product being exported to the U.S.[176]

In order to make goods coming from Mexico eligible for reduced or zero tariff treatment in the U.S. under NAFTA, a substantial amount of processing in Mexico is required. Whenever foreign investors establish subsidiaries in Mexico and perform substantial transformations which confer origin, their products will be allowed to enter the member states under the NAFTA preferential arrangement.[177] The "substantial transformation" test or the change of tariff classification rule is utilized to decide whether a product can be identified as having been originated in the beneficiary country. The "test" involves deciding whether imported materials or components are regarded as having been substantially transformed if they emerge from a processing stage with a name, character or use which differs from that which they possessed before processing.

Establishing rules of origin has become quite complicated in recent years as a result of the proliferation of products traded internationally and the expansion of worldwide sourcing of materials and components by globally integrated enterprises. However, the U.S., by using this procedure, has shown its resolve to ensure that third countries will not use NAFTA as a "passkey" to its markets.[178]

Important issues that must be addressed concerning diversion are whether the trade increase between members of an integration arrangement occurs at the expense of

---

[176] Ibid.

[177] Ibid., 39.

[178] Weekly, "The Trojan Horse Issue," 19 - 25.

low cost-producing nonmembers. Other issues to be considered in terms of the effects of NAFTA are whether imports and exports of all members are increasing, and whether total trade is increasing.[179] The Agreement seems to offer only minimal opportunities for trade diversion from other countries in the hemisphere since Mexico, because of its location, abundance of cheap labor, and economies of scale, already is positioned as a cost competitive producer. The scope for trade diversion is also limited due to the relatively unhindered access that Mexico enjoyed to the U.S. market prior to NAFTA. As far as the increase in trade goes, as was shown earlier, the increase in trade among the members in the post NAFTA period was markedly greater than in the pre NAFTA era. This does not mean, however that NAFTA was totally responsible for the results, but it can safely be claimed that NAFTA did play a role, particularly with the removal of the tariffs and other barriers.

It can be surmised that NAFTA has been both protectionist in some respects, and open in others. While the Agreement has made it more difficult for foreign firms to compete in the North American market, both because of the higher barriers erected against non members, and also due to the increased competitiveness of the North American companies, it has spearheaded economic regionalism in the hemisphere,[180] which is regarded as one route to promoting free trade.

NAFTA has also contributed to trade liberalization by nudging the Caribbean governments to countenance more reciprocal trading relationships both with hemispheric

---

[179] Weintraub, *NAFTA at Three*, viii.

[180] Kessler, "New NAFTA Alliances," 1.

and extraregional partners. The Agreement has been credited with encouraging the Caribbean countries to be more amenable to new trade arrangements with Europe that would be reciprocal. It has also encouraged these countries to seek equally new arrangements with nations in the Pacific Rim, in order to compensate for the perceived or potential loss of CBI advantages to Mexico. In this respect, has acted as a catalyst for some Caribbean and Latin American states to move towards deepening and widening hemispheric cooperation, as is evidenced in the plethora of bilateral and multilateral trade pacts that have been developed.

NAFTA may well have been the stimulus that was needed within the subregion to force the governments into devising new economic strategies and establishing new forms of cooperation to achieve development with the private sector playing an integral role. However, it is left to be seen whether or not this progress by Caribbean governments will be short circuited by the granting of CBI parity that went into effect in October, 2000. These governments may once again become somewhat complacent and secure in being granted these benefits. They may not consider the need to continue aggressively seeking reciprocal arrangements as one that is as urgent as before the CBTPA was granted. This type of complacency could set the stage for future problems when the FTAA comes into effect, as it is slated in 2005.

Caribbean governments, despite the benefits they perceive as having gained from CBI parity, must continue their efforts to make their industries more competitive in order to survive in the increasingly liberalized trading environment. One of the region's industries that would be facing such a challenge particularly in the context of CBI parity and the implementation of the FTAA, is the textile/apparel industry.

CHAPTER 6

JAMAICA 'S ECONOMY AND ITS TEXTILE/APPAREL INDUSTRY:

Background

As one of the largest and most populous of the English speaking Caribbean nations, Jamaica was well positioned economically to embrace the CBI program and the export oriented strategy that it entailed. Beginning in the late 1950s and early 1960s, successive Jamaican governments introduced various pieces of legislation such as the Industrial Incentives Act (IIA), the Export Industry Encouragement Act (EIEA), and the Factory Construction Act (FCA) as part of an overall plan to restructure the economy. One of the key objectives of the plan and its corresponding programs of tax incentives and fiscal concessions to approved investors, was to promote economic diversification through the development of manufacturing industries geared towards supplying the domestic market.[1] This strategy emerged as a blend of an export-led development approach and the fundamentals of an Import Substitution Industrialization (ISI) model.[2]

The various pieces of legislation offered liberal fiscal incentives granting tax relief to certain enterprises[3]. There were a number of benefits that were available under

---

[1] Catherine Hyett, "The Impact of the CBI on Barbados, Jamaica, and Grenada: An Assessment" *Imperial Power and Regional Trade*, eds. Abigail B. Bakan, David Cox, and Colin Leys (Ontario: Wilfird Laurier University Press, 1993), 131.

[2] Ibid.

[3] Jampro, *Jamaica: Establishing An Offshore Apparel Operation in Jamaica,* (Kingston, Jamaica: Jampro, 1992): 1.

these Acts. Companies were eligible for a full exemption from certain liabilities, including tax, customs and consumption duty on imported equipment and machinery, and customs duty on raw materials. These exemptions were available for varying periods depending on the level of the local value added. The legislation also made exemptions for the carry forward of losses incurred during the tax holiday for a period of six years after the expiration of the holiday. Companies were also eligible for partial relief from tax on profits related to export performances by industries not approved for benefits previously mentioned, or whose period of enjoyment of these benefits had expired. A special export incentive scheme under which profits derived from exports outside of the Caribbean Common Market are eligible for perpetual income tax relief of levels ranging from 25% to 50% of chargeable tax, depending upon the ratio between profits derived from such exports and total profits, were also covered by these bills. Another benefit provided for the availability and use of factory space at economic rates of rental, under the Factory Building Program.[4]

Several other programs were also instituted by the government in its strategy to move the country beyond its traditional role as a supplier of primary commodities and to stimulate activity in new areas of the manufacturing sector. One of the most important programs under this plan was the formation of the Jamaica Industrial Development Corporation (JIDC) in 1952, which evolved into what is now known as JAMPRO, to market and promote the country's industries abroad. Thus by the 1980s, the country possessed a relatively developed industrial infrastructural system.

---

[4] Ibid.

Included in the overall plan for economic growth was the goal to attract foreign investment by encouraging foreign firms to form joint ventures with local enterprises, and to become involved in export-oriented industries.[5] Thus from the mid 1960s onwards, the manufacturing sector had emerged as the most important single sector in the Jamaican economy, replacing agriculture. The agricultural sector in Jamaica has been traditionally divided into two subsectors: 1) crops produced primarily for export and 2) a large subsector for domestic agriculture. Traditional agricultural exports include sugar, bananas, coffee, pimento, citrus and cocoa, while fruits such as papayas, and root crops such as yams and potatoes, make up the nontraditional agricultural export market. However, while the share of agriculture to GDP between 1950 to the 1980s declined from 30% to around 8%, the contribution of manufacturing to GDP grew from about 11% to around 15% in that same period.[6] The main areas which had attracted foreign private capital in the post war period were the bauxite-alumina industry, tourism and the manufacturing sector. However, the majority of capital inflows into Jamaica went into the bauxite-alumina sector.[7] The following tables show the contribution of various sectors to the Jamaican economy:

---

[5] Ibid.

[6] Ramesh Ramsaran, *U.S. Investment in Latin America and the Caribbean: Trends and Issues* (New York: St. Martin's Press, Inc., 1985) : 153.

[7] Ibid., 160.

TABLE 6.1

Contribution of Agriculture to the Jamaican Economy: 1950 - 1994

Agriculture as a % of:	**1950**	**1960**	**1970**	**1980**	**1990**	**1994**
GDP	24.0	12.0	7.0	8.0	6.0	8.0
Exports	85.2	39.8	17.0	15.5	13.9	13.7
Employment	42.1	39.0	33.6	37.7	26.7	23.6

Source: The Institute for Social and Economic Research, UWI, Mona, Jamaica.

TABLE 6.2

% Contribution of GDP by Sector (Constant Prices): 1981 - 1989

	Agriculture/Fishing			**Bauxite/**
Year	**Export**	**Domestic**	**Manufacturing**	**Alumina**
1981	1.3	4.2	15.1	8.6
1982	1.3	3.7	16.0	5.9
1983	1.2	3.8	16.1	5.8
1984	1.2	4.5	15.4	5.9
1985	1.2	4.6	16.2	5.0
1986	1.2	4.4	16.3	5.2
1987	1.1	4.3	16.4	5.1
1988	1.2	3.8	16.4	4.8
1989	1.1	3.2	16.8	6.4

Source: PIOJ, *Social and Economic Survey*, various issues

Prior to the 1960s, the manufacturing sector was comprised mainly of activities in the processing of local agricultural products, and the production of a limited range of consumer goods for local consumption and exports. These products included sugar, rum, cigars, beverages, and food products. As the sector expanded, it began to include a range of assembly-type industries producing mainly for the local and CARICOM markets.[8] By the 1980s, manufactured exports particularly to North America rose rapidly in both volume and value, accounting for 32% of total Jamaican merchandise exports in 1995. Much of this increase was a result of the restructuring of the country's apparel industry.[9]

The government's strategy to attract foreign investment particularly for the assembly-type industries included the establishment of special commercial locations known as Free Trade Zones (FTZs), also called Export Processing Zones (EPZs). FTZs offered manufacturers whose products were geared towards the export market, a wide array of publicly subsidized services, and allowed them to operate a manufacturing plant, assembly or packaging facility and redistribution center with fewer import and exchange control restrictions than businesses whose production was aimed towards the domestic consumption.

Jamaica FTZs

The FTZs have played an important role in the expansion of labor-intensive , light assembly exports from Jamaica particularly in the area of textile/apparel where close to 90% of the zones' employees produce garments. These establishments were set up in close proximity to the international airports (mainly Kingston and Montego Bay areas)

---

[8] Ramsaran, *US Investment in Latin America and the Caribbean:Trends and Issues*, 153.

[9] Gordon V. Shirley, "Jamaica and Free Trade in the Western Hemisphere: A competitive Analysis of Selected Manufacturing and Service Industries," in *Jamaica After Nafta: Trade Options and Sectoral Strategies*, eds. Ann Weston and Ushan Viswanathan (Ottawa, Canada: The North-South Institute, 1998) : 99.

and adjacent to deep water port facilities. The incentives offered to potential investors include exemption from payment of corporate tax and customs duty on raw materials, machinery and equipment; no restrictions on repatriation of profits; exemption from import licensing and quantitative restrictions; exemption for foreign based companies from exchange controls and exemption from work permit fees for foreign personnel; lower than market price rental fee for factory space; 100% tax holiday on profits in perpetuity for industrial activities; and total exemption from income tax on sales for commercial enterprise.[10] Under the provisions of the Jamaica Export Free Zone Act, products from the free zones must be exported. Also, FTZ exports to CARICOM members are subject to the policy of the importing country, that is, liability for the payment of the import duty and subject to quantitative restrictions.[11]

In addition to the FTZ program, the EIEA allowed manufacturers producing exclusively for export outside of the CARICOM to apply for concessions that would exempt them from the payment of income tax on profits for varying periods, up to 10 years depending on the level of local value added and foreign exchange earning potential of the project. The income tax exemption also applies to dividends distributed to residents as well as non-residents who are not subject to income tax on such dividends in their country of residence.[12] In addition, imports of capital goods and raw materials

---

[10] Jamaica National Investment Promotion Ltd., *Jamaica: Establishing An Off-shore Apparel Operation in Jamaica* (Kingston , Jamaica: 1992).

[11] Jampro, *From 807 to High Fashion...Jamaica on Show. Jamaica: the Premier Location for Apparel* (Kingston, Jamaica, n.d.): 19.

[12] Ibid.

under this program are not charged either customs duty or General Consumption Tax (GCT) which are generally applicable to similar imports by other manufacturers.[13]

As a result of these programs of generous tax incentives, Jamaica was able to offer advantages as an export production site, and gained a comparative advantage in export activities over many of its strongest competitors in the region. The country also had several advantages which made it attractive as an investment site for labor intensive production operations. It possessed an educated, English speaking , inexpensive labor force, and its geographic location placed it in close proximity to the North American market. The country, in addition, has relatively developed financial systems and an effective air and sea freight communication and transportation systems. Jamaica also shared with the other English speaking Caribbean nations certain attributes that reinforced its competitiveness. These advantages included relatively low cost of production, political and social stability, a cooperative workforce, preferential access to markets other than the U.S., notably the European Union, and the widespread use of the English language.[14]

By the early 1970s, however, many of Jamaica's advantages were beginning to be eroded by economic and sociopolitical developments. The oil crisis and a decrease in private investment were partly to blame for the downturn in economic activity. The country's export earnings fell sharply as a result of a drop in demand for alumina/bauxite

---

[13] Ibid.

[14] Peter Steele, "The Caribbean Clothing Industry: The U.S. and the Far East Connections," Special Report, No. 1147 (Kingston, Jamaica: The Economist Intelligence Unit, October 1988): 134.

and lower prices for agricultural products, particularly sugar.[15] Currency overvaluation and a spate of industrial unrest and social tensions prompted some foreign companies to relocate from the island to more stable low wage countries. These problems also stimulated capital flight. Added to this, publicity about what was occurring on the island negatively impacted tourism earnings. The Jamaican economy went from a year of strong growth in 1981 to a period of stagnation between 1982 and 1985 as can be seen in Table 6.3:

TABLE 6.3

Real Growth Rates of GDP (%): (1981 - 1986)

1981	1982	1983	1984	1985	1986
2.6	1.1	-3.8	5.4	-4.5	2.1

Source: Organization of American States, *Statistical Bulletin of the OAS*

In the late 1980s as this trend persisted, and as the downturn in the economy continued, pressure from the international financial institutions on the government to restructure the economy began to increase. The International Monetary Fund (IMF) strongly suggested exchange rate adjustments through currency devaluations. The economic and social situation was largely responsible for the electoral defeat of the People's National Party (PNP) social democratic government under Michael Manley, and the replacement with

[15] Kempe Ronald Hope, *Economic Development in the Caribbean* (New York: Praeger Publishers, 1986) : 33.

the Edward Seaga's Jamaica Labor Party in 1980, whose administration was a conservative one and enjoyed support from the Reagan Administration.

U.S. foreign assistance to the island which amounted to merely $56 million in the final three years of the PNP government, rose to $500 million for the first three years of the Seaga's reign.[16] It is estimated that during the seven years of the Seaga's administration, Jamaica averaged among the top twenty recipients of U.S. aid.[17] It appeared that the close relationship shared by Prime Minister Seaga and President Reagan facilitated the implementation of the CBI in the mid 1980s.

Nevertheless, the situation worsened. In the 1980s, the Seaga government introduced a program of budget cutbacks, government layoffs, tax increases, currency devaluation, and the elimination of price supports on food and fuel. The government also implemented a program of reform that was centered around industrial manufacturing. As a result of the cutbacks, corresponding educational, health, and other social programs which were the hallmark of the Manley Administration, were severely affected, causing the costs of basic goods and services to spiral out of control.[18]

Under these circumstances, the Prime Minister welcomed the CBI in 1984 as a program that would lead Jamaica's and the region's economy towards a more prosperous future. He saw it as an opportunity to influence trade and aid patterns in the region, moving away from a trend where dependence on foreign aid in the form of grants and

---

[16] Hyett, "The Impact of the CBI," 134.

[17] Clinton G. Hewan, *Jamaica and the United States Caribbean Basin Initiative: Showpiece or Failure* (New York: Peter Lang Publishing Inc., 1994), 128.

[18] Ibid., 151.

loans had developed, to one of self reliance based on joint development projects.[19] During the first year of operation of the CBI, net foreign private investment rose by $12.2 million, signaling a possible return of investor confidence in the economy.[20]

Although the CBI offered preferential treatment on a wide range of products to the beneficiary countries, one of the main criticisms of the program when it was first instituted was that the most successful and promising export from the region, apparel, did not benefit from the trade provisions. However, after much negotiation and lobbying on the part of the Caribbean governments, in particular Jamaica, the U.S. administration formulated the CBI Textile Program in 1986 to provide a framework under which textiles and apparel from the CBI beneficiary countries could enter the U.S.

International Trade in Textiles and Apparel: The MFA and ATC

Prior to 1986, U.S. apparel imports from the Caribbean region were treated in the same manner as other similar imports from other parts of the world, governed by the Multifibre Agreement (MFA). Beginning in 1974 through 1994, the period when the MFA was in operation, exports of textiles and clothing from developing to industrialized countries were subject to the bilaterally agreed or unilaterally imposed quotas and quantitative restrictions by the developed countries under a special regime outside of normal GATT rules.[21] The MFA permitted the use of quotas without compensation, contrary to the general prohibition against their use under the GATT. Under this

---

[19] Ibid., 2.

[20] Hyett, "The Impact of the CBI," 139.

[21] Antero Hyvarinen, "The Changing Pattern of International Trade in Textile and Clothing " (New York: International Trade Centre, UNCTAD/GATT, June 24th, 1996): 1.

Agreement, the importing country could apply selective quantitative restrictions when surges in imports caused or threatened market disruption or serious damage to the industry of the importing country.[22] The MFA was thus a substantial departure from the basic GATT rules and particularly from the principle of non-discrimination.

In 1994, at the conclusion of the Uruguay Round of negotiations, the MFA was replaced by the Agreement on Textiles and Clothing (ATC). The ATC will serve as a preparatory period during which time developing countries can prepare themselves for the global liberalization in international trade in textiles and apparel beginning in 2005. The main purpose of the ATC is to place international trade in textiles and clothing within the basic principles of non-discrimination of the GATT discipline. The ATC obligates WTO members to integrate textiles and clothing into normal trade regime by outlining a three-stage transitional process for the progressive reduction of quotas and the ultimate removal of all restrictions by 2005. The quotas due to be eliminated continue to apply to most textile and apparel trade and to hold back significant expansion of trade in the products.[23] The Agreement also included minimal concessions for lowering apparel and textile duty rates. The duty reductions included in the Agreement will only lower most U.S. textile and apparel duty rates by 6% to 11%. For example, the duty rate on a pair of cotton woven trousers will be 16.6% by 2004, compared with

---

[22] Ibid.

[23] Brenda Jacobs, "Regional Pacts Produce New Trade Patterns," Bobbin 41, no. 3 (November 1999): 70 - 71.

17.7% in 1994, while the duty on a wool pullover will be set at 16% in 2004, compared with 17% in 1994.[24]

One of the implications of this agreement that seeks to remove all quantitative restraints of trade in textile and apparel, is that market access on a worldwide basis will be progressively improved, while contributing to lessening the negative effects of the many trade distortions in both the developed and developing countries. However, in the first five years of its implementation, the ATC has yielded disappointing results for developing countries. In July 2000, at a meeting of The International Textile and Clothing Bureau (ITCB), a consortium of twenty four developing countries, members accused industrialized countries of failing to grant meaningful access concessions under the ATC by withholding the most significant market access concessions until the last possible moments.[25] The duty rates for textiles and apparel in the developed countries remain about three times the levels of those on other products.[26] This prompted the group to unveil a proposal demanding that the developed countries liberalize 50% of all restrictions to trade in textiles and clothing by 2002. They proclaim that they would remain reluctant to engage in further trade liberalization until concerns over textiles are resolved.[27] The ITCB accusations highlight the growing tensions between developed and developing countries over the distribution of benefits from trade liberalization.

---

[24] Ibid.

[25] "Africa-CBI Trade Bill Passes Senate," *Bridges Weekly Trade News Digest* 4, no. 19 (May 2000): 1.

[26] Jacobs, "Regional Pacts Product New Trade Patterns," 70 - 71.

[27] Ibid.

The CBI Textile Program

The textile and apparel industry which requires large numbers of relatively low skilled labor and utilizes high levels of labor intensive technologies, is seen as a viable sector to be developed by countries seeking to base their modernization on the export oriented model. The potential linkages that exist with an entrenched apparel industry are many. The industry brings into industrial employment persons who might otherwise not have an opportunity to be thus employed. It expands the base of such employment and has the potential to generate higher levels of skills that can be transferred to a broader sewn products sector, including the assembly of leather products or footwear, as well as to the assembly of electronic components.[28]

Another benefit of developing this industry is the potential for the offshoot growth of a service sector relating to repair and maintenance of machinery. This service can be extended to form the base of a machine-tool operation, especially if the garment industry were to become vertically integrated in the manufacture of textile.[29] Due to these potential benefits , many countries in the Caribbean region pursued the development of this sector beginning in the early 1980s, as part of their Structural Adjustment Program.

The U.S. fully supported this strategy of export led growth, and through the CBI, sought to encourage manufacturing activity in the region by opening its domestic market to imports from the region. This was done through the dismantling of most tariff barriers except for a few commodities where the U.S. domestic industry was considered to need

---

[28] The Jamaican Government, "National Industrial Policy: A Strategic Plan for Growth and Development " (Kingston, Jamaica: April 25, 1996) .

[29] Ibid.

particular protection. The case of textile and apparel was the most significant exclusion from the CBI program. Governments in the region considered the exclusion of textiles/apparels from CBI benefits as a significant flaw that served to lessen the value of the entire program to the region.[30]

The U.S. decision to make a special case for the region's exports of textile and apparel in 1986 by the implementation of the CBI Textile Program was thought to be influenced by a number of political and economic factors including the special relationship with the Seaga government in Jamaica, and as a reward for the support that most of the governments in the region gave to the U.S. invasion of Grenada a few years earlier.[31] In addition, exports of textile/apparel from the region to the U.S. showed a rapid increase beginning in the early 1980s, and the situation was seen as posing a potential political problem for the U.S.

The U.S. industry was becoming less competitive due to the high cost of production domestically, particularly from the cost of labor and other environmental and labor restrictions by which they are bound in the domestic market. Therefore, U.S. apparel makers began showing increasing interests in setting up low cost assembly operations in the region in an effort to improve their competitiveness against similar imports from low cost producing countries.

The U.S. administration was also faced with the challenge of how to deal with the problem of the increasing use of foreign fabrics by U.S. apparel makers, including those

---

[30] Steele, "The Caribbean Clothing Industry," 54.

[31] Ibid.

who were partnering with Caribbean manufacturers under the 807 system.[32] Another issue that the Administration was faced with was how to contain the activities of the Far Eastern textile companies operating in the Caribbean. These enterprises, like U.S. companies, were becoming increasingly more interested in the region as an offshore production location targeted at the U.S. market.[33]

The CBI Textile Program therefore came about as a result of political and economic need to protect U.S. interests, as much as (if not more than) the need to assist the Caribbean region in their developing efforts. The Program as it was designed, sought to sustain manufacturing activity in the U.S. It facilitated domestically those elements of the manufacturing process in which the U.S. manufacturers could take advantage of capital intensive technology. At the same time, it allowed for the transfer overseas those elements of the process in which the U.S. companies are at a particular disadvantage relative to their international competitors.[34] It also relieved U.S. manufacturers of duty payable on the value of the U.S. content of goods assembled overseas from components manufactured in the U.S., when these products are reimported into the U.S. as finished goods.

Overall, the program promoted the establishment of labor absorbing, export oriented manufacturing activity in the region by pairing such businesses with technical, managerial, and marketing skills from the U.S. In this way, it sought to address the

---

[32] This has been dealt with fully in previous chapters.

[33] Steele, "The Caribbean Clothing Industry," 55.

[34] Ibid., 48.

immediate need of providing employment in the manufacturing sector and contributing to the process of industrial development.[35]

The CBI Textile Program also represented a strategy to bring textile trade within the realm of the CBI from which it was deliberately excluded. The objectives of the Program included: 1) to expand the manufacture of apparel in the Caribbean by providing guaranteed access to the U.S. market for such clothing when produced under certain specific conditions; and 2) to aid the U.S. textile industry by ensuring that those specific conditions provide for the highest possible U.S. inputs into the privileged categories of imports.[36]

The Program operated by allowing the CBI beneficiary states to enter into special bilateral trade agreements with the U.S. utilizing a new form of restrictive quota, Guaranteed Access Levels (GALS), which would govern access to the U.S. market for categories of textile products assembled in CBI territories from goods cut and made in the U.S.[37] The Program also contained another category, Specific Limits (SLs), for products made from fabric cut but not formed in the U.S.

GALS were established based on the capacity of the Caribbean beneficiary country to produce the category of specific products. However, the level could be increased if requested by the government of the CBI country on the same basis. In addition, when the goods are reimported into the U.S., they would be subjected to the

---

[35] Ibid.

[36] The Department of Commerce, "Caribbean Basin Initiative Textile Program" (Washington, D.C.: March, 1987).

[37] Ibid.

regular 807 duties on the value of the U.S. components with duty payable only on the value added during assembly. This system, 807A or Super 807, differs from the regular 807 in that the former offers those additional exemptions from the quantitative restrictions which the U.S. uses to control apparel imports.

In order to discourage manufacture of products other than the 807A goods that are targeted at the U.S. market, and particularly to limit the growth of Far Eastern companies gaining a foothold by using the Caribbean to secure further quota allocations, the CBI Textile Program included certain safeguards. These were designed to limit the scope for such activities by capping imports of all categories showing signs of strong growth. Such products would be subject to restrictive action under the market disruption clause of the MFA.

The Program benefited the CBI countries in a number of ways. The costs involved in the setting up of a manufacturing plant were reduced since the U.S. contractor usually supplied the components for assembly and equipment. This was particularly important, since the cost of finance in the region is prohibitively high. The producers in the region had a secure export market for their goods provided they adhered to the delivery schedules and specifications. For the Caribbean workforce employed in the industry, the Program offered the opportunity to be introduced to the practices and processes of doing business with an industrialized country, as they were exposed to working with exact specifications and schedules.

Although the managerial, technical and other high level positions were usually held by foreigners, some of these advanced skills were able to trickle down to local workers even though to relatively small numbers. There were instances where local managers were trained in various aspects of management, exposing them to areas such as contract negotiation. These benefits were gained without high foreign exchange costs.[38]

Although the countries vigorously sought and welcomed the CBI Textile Program, there were criticisms levied against it, particularly the claim that the U.S. administration made it impossible for the beneficiary countries to develop significant, self sufficient apparel industries. Critics suggested that the Program was structured in such a way that it discouraged those types of enterprises, and instead served to retard the wider economic benefits that could have been gained by the region.[39]

It is also argued that 807 garment production in the Caribbean region is concentrated in sewing, finishing, inspection and packaging. Higher level skills involved in design, pattern making, layout, cutting and marketing are done exclusively by the U.S. firms. Even in the case where processes are carried out locally, managerial control remains in the domain of foreigners. As a result, the system tends to develop low skills that can only be used in assembly and sewing , and does not tend to foster the development of forward and backward linkages.[40] The system is also "credited" with forcing the Caribbean industry to specialize in product types and marketing methods that are uncompetitive in other areas:

---

[38] Steele, "The Caribbean Clothing Industry," 57.

[39] Ibid.

[40] Winston H. Griffith, "Caricom Countries and the Caribbean Basin Initiative," *Latin American Perspectives* 17, issue 64, no. 1 (Winter 1990): 42.

> . . . specialization on simply-styled garments with low design content, enhances firms' vulnerability to competition in the home market, and there is no hope for penetration in the export market... competition comes from fashion-oriented manufacturers abroad and will worsen when tariff barriers fall . . . [41]

Critics also assert that the profit margins on the local processes are relatively low as local value added ranges between 10 and 20% of the total value of the product. As a result, the foreign exchange earnings potential is limited making the accumulation of capital for further investment difficult.[42] Another problem with the industries is that operations can cease to be viable for reasons that are outside the control of local partners if the enterprises become unattractive to the U.S. contractor.[43] One CBI country's industry that is currently experiencing such events is Jamaica, which was the first signatory to the CBI Textile Program.

Jamaica's Textile/Apparel Industry

Background

The apparel industry in Jamaica was one of seven manufacturing sub-sectors targeted for development under the Structural Adjustment Program, when Prime Minister Seaga embarked on a series of activities to reorient the economy towards export manufacturing. The island's textile manufacturing industry began as an export sector in the 1960s and 1970s. By the beginning of the 1980s, the sub-sector was comprised of predominantly small, locally-owned businesses, producing primarily for the local and

---

[41] Report prepared by Antonios Vouranis, "Productivity for the Apparel Sub-Sector in Jamaica," a Project Coordinated by Jampro (Kingston, Jamaica: 1992): 1.

[42] Steele, "The Caribbean Clothing Industry," 50.

[43] Ibid.

CARICOM markets, together with a small group of foreign-owned export oriented producers, serving exclusively extra-regional markets including the U.S.

In the early 1980s, the regional garment industry declined along with the entire CARICOM market. There was a significant reduction of factory operations, even some closures throughout the region. The Jamaican garment industry was one of the most adversely affected, resulting in massive closure of sewing facilities. However, the Jamaican companies that survived the downturn developed alternative market sources which led to the development of manufacturing arrangements with US 807 contractors, who offered them an opportunity to continue operating at full capacity. The program required a high level of production and plant efficiency in order for the plants to maintain viability at the low profit margins that were characteristic of the program.[44]

The government from the beginning was committed to maintaining relatively reasonable wages in the industry and provide training for the workers in the sector. Included in its plan of action were a four to five year factory building and training program; a 20-factory complex targeted towards the production of apparel and other sewn products for the North American and European market, and constructed in the FTZ along the ports of Kingston and Montego Bay; and a detailed road map for management, supervisory and operator training in conjunction with plant start-up.[45] The Jamaican National Investment Program Agency (JNIP), the investment promotion agency,

---

[44] The Commonwealth Secretariat, "Jamaica: Productivity Improvement and Upgrading of Garment Factories" (London: January, 1986): 1.

[45] Jampro, "A Special Report: Jamaica," reprinted from Corporate Location, *Apparel* (Kingston, Jamaica: 1995).

contracted with Kirk Salmon and Associates, an Atlanta based industrial consulting firm, to spearhead the fully funded training program, along with the world renowned Singer Company who provided the training for maintenance and mechanical personnel.

The government bore the costs associated with the training of management/supervisory, technical and direct labor personnel, and also provided a cash subsidy of $JA 10 per week to each apparel industry company for each of its trainee employed for a six month period.[46] A campaign was also launched simultaneously to attract North American, European, and Asian companies engaged in export processing activities to the island As a result of these initiatives, apparel manufacturing was transferred from local ownership dominance to foreign companies producing for overseas markets, moreso as the additional factory space attracted foreign investment. An increasing amount of total output consisted of apparel assembled from precut imported fabric, with the majority of raw materials used imported from and re-exported to the U.S. under the 807 program.[47]

By the mid 1980s, and particularly after the signing of the US/Jamaica Bilateral Textile Agreement in August 1986, the sector was becoming one of the most dynamic in the Jamaican economy, steadily increasing its contribution to foreign exchange earnings and contributing to the country's emergence as one of the four largest Caribbean suppliers of 807 products to the U.S.[48]

---

[46] Jampro, "Jamaica: Establishing an Offshore Apparel Operation in Jamaica." (Kingston, Jamaica: n.d).

[47] Hyett, "The Impact of the CBI," 143.

[48] Ibid.

TABLE 6.4

Jamaican Exports of Garments: 1982 - 1987 ($US Millions)

	1982	1983	1984	1985	1986	1987
Customs Territory						
USA	11.3	7.0	26.4	29.7	50.9	97.6
CARICOM	5.4	5.0	2.6	.7	.4	.5
Canada	-	-	.2	.2	.5	2.3
EC	-	-	-	-	.1	negligible
Others	.6	.7	.8	.4	.4	.4
Total	17.3	12.7	30.1	31.1	55.2	92.8
Free Trade Zones						
USA	.6	2.5	10.6	21.4	40.2	77.1
Others	-	-	-	1.0	2.1	3.4
Total	.6	2.5	10.6	22.4	42.3	80.5

Source: Jampro

The apparel sector also became the single largest employer in the manufacturing sector during this period.

While the companies producing for the export market particularly under the 807 system were expanding and being courted by the Jamaican government, the small locally owned garment factories on the island that catered primarily to the domestic and CARICOM markets were being pressured by, and excluded from government policies. In 1982, there were only half of a dozen 807 enterprises operating on the island, but by 1986, the number had grown to sixty, and while over one hundred companies were registered as clothing exporters in 1988, only eleven were reported as locally owned.[49]

[49] Jampro, "Updated Report of the Sub-Committee on Adjustment" (Kingston, Jamaica: July, 18, 1990).

It is estimated that many of the foreign companies that were not U.S. owned or subsidiaries, were from the Far East mainly Hong Kong and South Korea, and were set up after 1985. They were actively encouraged beginning in the early 1980s as part of the government's strategy to develop the sector. These establishments involved high levels of investment in Jamaica, not only in terms of plant and investment, but also in the development of skilled staff.

Many of the small domestic companies that moved into the 807 trade did so as a group working together, with one of them acting as the coordinator in order to secure contracts which were too large for any one of them to undertake. They were also able to make use of the subsidies provided by the government to help companies train their staff for 807 exporting. Nevertheless, the small domestic producers faced a number of difficulties in the industry. With interest rates at exorbitant levels, it became difficult for them to borrow funds to finance their business. They were also saddled with huge debts which compounded the problem of raising funds. In addition, they could not afford to pay the high rates of duty on imported capital equipment, fittings and spare parts needed for their factories. With inadequate management staff, the companies often faced delays in meeting delivery schedules and failures to maintain specifications.

The domestic small companies gained few or no benefits from the government subsidized infrastructure that was made available to the foreign garment manufacturers that were establishing operations in the FTZs. The former were also excluded from the majority of public and USAID funds given to companies in the 807 system. [50] USAID

---

[50] Hyett, "The Impact of the CBI," 145.

criteria for granting funds tended to discriminate both against local businesses and the type of enterprises which formed the backbone of the country's apparel industry in previous years, by categorizing enterprises in terms of size - employees and machines in operation. Businesses employing less than sixty production workers did not gain as much from fiscal and other incentives.[51]

While the 807 system which relied on imports of U.S.-made components, accessories, and other inputs fueled the growth of the apparel sector, it dealt a severe blow to local producers. The restructuring of the industry towards export orientation for the U.S. market reduced outlets for Jamaican-made fabric, components and accessories, making it extremely difficult for local manufacturers focusing on local and regional demand.[52] This process can thus be considered to have had the effect of reducing the country's potential to be self reliant.

Growth in the Sector from the mid 1980s

The growth of the apparel industry in Jamaica contributed to the manufacturing sector becoming the second in importance in terms of its contribution to employment and exports by the mid 1990s. The sector employed 98,000 workers or about 11% of the country's labor force.[53] The significance of the sector's contribution to exports can be gauged from the following tables:

---

[51] Ibid.

[52] Interview conducted with local Jamaican garment business owner by author (Kingston, Jamaica: May 2000).

[53] Gordon V. Shirley, "Jamaica and Free Trade in the Western Hemispheres: A Competitive Analysis of Selected Manufacturing and Service Industries," in *Jamaica After Nafta*: 100.

TABLE 6.5

% Contribution of Manufacturing Sector to GDP: 1986 to 1995

1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
21.3	20.9	19.6	19.6	19.4	19.1	19.6	18.4	18.5	17.7

Source: PIOJ, *Economic and Social Survey*, several issues

TABLE 6.6

Contribution of Manufacturing to Jamaican Exports : 1991 - 1995
($US Millions)

	1991	1992	1993	1994	1995
Traditional Agriculture	66.0	67.4	63.6	72.0	84.2
NonTradiditonal Agriculture	46.4	52.8	60.0	65.1	77.3
Manufactured goods	217.8	280.9	347.1	366.1	434.5

Source: PIOJ, *Economic and Social Survey of Jamaica*, several issues.

TABLE 6.7

% Contribution to GDP by Industrial Sector (1989-1998)

Years	Agriculture/ Forestry	Manufacturing	Mining/ Quarrying
1989	5.9	21.5	7.5
1990	6.2	21.2	8.8
1991	6.2	19.4	9.2
1992	6.9	19.5	8.8
1993	7.4	18.8	8.7
1994	7.9	18.7	9.2
1995	8.0	18.4	8.5
1996	8.4	18.1	9.3
1997	7.3	17.9	9.8
1998	7.3	17.3	10.1

Source: Statistical Institute of Jamaica, *National Income and Product*, 1998. Kingston, Jamaica.

By 1995, the textile and apparel subsector was the largest export subsector in manufacturing and the second largest in terms of sales revenue with its gross sales increasing from $US 10 million in 1980 to $US 500million in 1995.[54] The sector's share of Jamaica's total exports to the U.S. grew from 41% in 1990 to 63% in 1995.[55] The industry contributed to sustaining other sectors such as ports, shipping, trucking, security, bus transport, retail and vending,[56] thus becoming the island's largest foreign exchange earner from non-traditional exports and the single largest employer of labor in the manufacturing sector. The number of Asian owned companies that assembled apparel in Jamaica rose from eight in 1992 to twenty three in 1997. Many of these newcomers relocated to the region to exploit unfilled U.S. apparel quotas.[57]

Structure of the Industry

Beginning in the 1980s, the structure of the industry began to evolve into three distinct areas: 1) Item 9802, formerly the 807, in which apparel pieces cut in the U.S. are assembled in Jamaica and returned to the U.S. where duty is paid only on value added; 2) CMT arrangement, where fabric is imported into Jamaica and cut, made and trimmed on the island; and 3) Full Package, where the garment is designed and fully made in

---

[54] "The Jamaican Government National Industrial Policy: A Strategic Plan for Growth and Development" (Kingston, Jamaica: April 25, 1996): 139.

[55] Weston and Viswanathan, "Nafta and the Potential for Trade and Investment Diversion from Jamaica," 38.

[56] The Jamaican Garment Manufacturers Confederation, "The Jamaican Garment Industry" (Kingston, Jamaica: September 1996).

[57] Weston and Viswanathan, *Jamaica After NAFTA*, 38.

Jamaica, and the Jamaican company is responsible for sourcing all material. Duty is charged on the total value of the product when it is reimported into the U.S. Few exports fall into this last category.[58]

Item 9802 (formerly known as 807a) Production [59]

Companies involved in the 807a activities benefit from the liberal quotas under the US/Jamaica Bilateral Textile Agreements. Approximately 50% of companies in this group are offshore foreign direct investments from the U.S., 44% are Jamaica owned and 6% originate from the Far East.[60] The companies usually operate under high intensity production schedules employing largely unskilled and semi skilled workers. These employees are usually not represented by labor unions, with employers frequently discouraging unionization by workers in the FTZs where most of these companies are located. Companies in this category are also usually described as "footloose" in character, as a result of not having to shoulder the entire cost of setting up their factories on the island, and are able to take their operations to whatever location that seems to offer lower costs without a tremendous overhead loss.

This category of apparel exports are by far the largest contributor to foreign exchange earnings and to employment. In 1992, forty seven companies were exporting clothing under 807 provision, up from twenty one in 1987. By 1994, 807 production was responsible for 71% of total exports amounting to $348.1 million, with roughly 63% of

---

[58] Jampro, "From 807 to High Fashion...Jamaica On Show."

[59] 807 is the term that is still commonly used in the industry.

[60] Jampro, Marketing Plan 1996 - 1997 (Kingston, Jamaica: March 2000).

Jamaican apparel exports to the U.S. coming under this category.[61] Around 73% of 807 exports were produced in FTZs, while 27% were manufactured in the Customs Territory in 1994. The following table shows the structure of apparel exports in the country between 1995 and 1999.

TABLE 6.8

Structure of Apparel Exports (to all Markets): ($U.S. Millions)

	1995	1996	1997	1998	1999
Total 807	414.9	386.9	384.9	353.7	293.3
CMT	113.2	87.5	60.5	56.6	45.7
Others	54.2	61.4	87.0	95.0	90.2

The rapid growth in 807 was attributed to several factors including the unlimited access to the U.S. market; the support from the U.S. industry and government for this category of production which complements their fabric and cutting industry; the relatively low initial capital investment required by Jamaican investors; the financing and marketing activities that were undertaken by the U.S. partner; and the access provided to the latest U.S. technology.[62]

CMT Production

CMT production differs from the 807 in that more value is added to the product locally because the product is cut, assembled and finished locally. However, duty is paid

---

[61] Weston and Visnanathan, Jamaica After Nafta: Trade Options and Sectoral Strategies: 40.

[62] The Jamaican Garment Industry, a submission by the Jamaican Garment Manufacturing Confederation (Kingston, Jamaica: Jampro, September, 1996).

on the fabric and value added upon entering the U.S. This category of production is dominated by the Far Eastern companies, which use fabric imported from Asia and which produce mainly for the first country markets. In 1994, CMT production was responsible for close to 28% of exports, amounting to around $US 107.7 million.[63] In the same year, around 82% of CMT exports were produced in the FTZs, while 18% were made in the customs territory. In 1999, CMT production was responsible for 13% of apparel exports.[64]

Full Package

The majority of the firms that produce this category of products are Jamaican owned. They design apparel, cut patterns from fabric and assemble the final product, exporting a large percentage of their product to the CARICOM market. These operations add the most value to the product and require the manufacturer to source fabrics, provide designs, do the cutting, assembling, and finishing of the product.

Under this system, when the U.S. firms place an order for items of apparel, the Jamaican supplier finances the entire operation In addition to being responsible for financing raw material, plant and equipment, full package companies also take care of marketing the final product.

Importance of the U.S. Market to the Jamaican Industry and Economy

The U.S. is of great importance in sustaining the growth in production and exports of labor intensive manufactured goods in CARICOM. It offers CARICOM a large

---

[63] Jampro Marketing Plan, 1996 - 1997 (Kingston, Jamaica: March 2000).

[64] Jampro Marketing Plan, 2000 - 2001 (Kingston, Jamaica: March 2000).

market for the products and services in which the Caribbean countries have or can acquire a comparative advantage.[65] Since the U.S. is no longer a significant exporter of textiles and clothing, it has become the world's largest importer of garments - around 25% of the global imports.[66]

Among the countries with quotas for garment exports to the U.S., Jamaica was the leading supplier of underwear, exporting 13.68 million dozen units in 1995, which was worth roughly $79 million, and represented 44% of U.S. imports by volume.[67] By the mid 1990s, more than 90% of Jamaica's apparel production was exported to the U.S. under the 807 program.

In 1995, about 93% of export sales were headed to the U.S[68] Apparel exports in that year exceeded 55% of total Jamaican exports to the U.S.[69] In 1998, Jamaica was the sixteenth largest supplier of garments to the U.S., and the seventh largest supplier of 807 products.[70]

In addition to the U.S., Jamaica exports apparel products to Europe - England, Finland, France, Germany, Spain - Australia, Canada, CARICOM, Hong Kong, and

---

[65] DeLisle Worrell, "Caricom and the North American Free Trade Area," Paper prepared for the Overseas Development Council (n.p., February, 1992): 9.

[66] Antero Hyvarinen, "The Changing Pattern of International Trade in Textiles and Clothing," 1.

[67] Shirley, "Jamaica and Free Trade in the Western Hemisphere," 103.

[68] Ibid.

[69] "The Jamaican Garment Industry," 1.

[70] Report by Kurt Salmon, "A Regional Comparative Analysis" (Kingston, Jamaica: Jampro 1998).

Nigeria.[71] However, duties on apparel exported to Canada which is excluded from CARIBCAN, range from 18 - 25%.[72] Exports to Canada also fell by 8% from US$4.8 million in 1993 to $US 4.4 million in 1994.[73] In the same period, exports to Europe decreased by 49.98% in 1994, from $US 51,950 million in 1993 to $US 25.99 million in 1994.[74] Jamaica's attempts to increase exports to the European markets were unsuccessful as that marketplace requires the manufacturer to be able to source all raw materials.[75] Trade with CARICOM however, increased from $US1.28 million in 1993 to $ 2.25 million in 1994.

An important characteristic of the textile industry in Jamaica which has great socioeconomic significance is the employment structure. The great majority of workers employed in the industry are women. By 1995, 93% of workers in the apparel sector were females between the ages of twenty and twenty- four years, who were usually the sole breadwinner in their family. A 1988 survey of workers in the Kingston FTZ found that 80% of the workers earned less than $US 15 a week. High unemployment drove many women to seek jobs in the industry in the 1970s and 1980s despite the low wages and poor physical conditions that were prevalent in the factories in the earlier period. Since that time, the government has attempted to make significant changes in the industry, as will be discussed later in this chapter.

---

[71] Ibid.

[72] Jampro, "From 807 to High Fashion...Jamaica on Show... "

[73] Jampro Marketing Plan 1996 - 1997.

[74] Ibid.

[75] Jampro Marketing Plan 2000 - 2001 (March 2000).

Challenges to the Industry in the 1990s

The industry in Jamaica experienced significant growth after the implementation of the CBI Textile Agreement and the signing of the US/Jamaica Bilateral Textile Agreement. The annual growth rate of Jamaican apparel exports to the U.S., about 28% over the period 1984 - 1995, was greater than any other in the manufacturing sector. Income from apparel exports almost doubled from $26 million to $50 million between 1984 and 1985, while employment in the apparel factories of Kingston Export Free Zone expanded from around 200 in 1981, to about 15,000 by late 1988.[76] Factors contributing to this growth included the competitive advantage enjoyed by the island in terms of market access, proximity to major markets, the cost and quality of labor, and the government incentives including prebuilt factory space and attractive tax holidays.[77] "Quota hopping" by Asian firms looking to secure locations with unfulfilled quotas also contributed to this growth.[78] It is being suggested that this growth may have caused the government to feel overly confident and comfortable enough to cut back most of its marketing and investment promotion efforts in the late 1980s thereby partly turning itself off as an option for new apparel investment.[79]

---

[76] Hyett, "The Impact of the CBI," 144.

[77] "The Jamaican Garment Industry," 1.

[78] Shirley, "Jamaica and Free Trade in the Western Hemisphere," 102.

[79] Kurt Salmon Associates, "Second Draft of a Regional Comparative Analysis and Recommendations on Strategic Initiatives to Increase Apparel Sector Competitiveness and Market Effectivenss for Jampro " (Kingston, Jamaica: Jampro, January 1997).

Despite these impressive growth rates, the industry began to confront a number of challenges both internal and external, which affected that growth both in export earnings and employment by the mid 1990s. As early as 1988, in a letter from an official with the Jamaican National Export Corporation to Coopers and Lybrand, a consulting company working with the Jamaican government on the industry, manufacturers expressed concern that the industry might be in jeopardy and needed governmental assistance. The local, small 807 garment producers claimed that the major problem they were facing were low profit margins exacerbated by under-capitalization, exorbitant interest rates of between 27 to 30%, their inability to collect payment from contracting parties, and the high rates of duty on capital goods.[80] These small manufacturers which numbered about sixty four, wanted the government to intervene with local banks on their behalf concerning more favorable terms for financing. They also wanted the government to set up a bank similar to the Agricultural Credit Bank to deal exclusively with the garment industry. They complained that due to their overextended state, they were unable to access the EXIM Bank's 16% rate, and even if it were possible, the Bank took long periods of time to make a decision.[81]

Revaluation of the Jamaican currency in the early 1990s caused much instability affecting all sectors of the economy. The government's increase of 60% in the national minimum wage resulted in high labor costs and subsequent high operating costs,

---

[80] Letter from Jamaica National Export Corporation to Coopers and Lybrand (Kingston, Jamaica: February 1988).

[81] Ibid.

particularly since workers' productivity did not match the increase.[82] The export markets were also experiencing a downturn and this resulted in a loss of contracts, the scaling down of operations and the loss of new investment opportunities.[83]

Coupled with these developments, the industry also faced a number of internal structural problems including the following:

(1) **The Labor Force**

There was a growing scarcity of trained and trainable labor in the country. To compound the problem, employers faced high incidences of lateness and absenteeism particularly on Mondays and after public holidays, despite financial incentives given to employees who attended the entire week and arrived on time.[84] Managers complained about the lack of work ethic they were observing from the workforce. Companies, particularly the Far Eastern establishments, cited poor worker attitude as a cause of low productivity.[85]

While many of the foreign owned apparel companies are managed by expatriates, Jamaican owned facilities are owned and managed by mostly family members. In both cases, there is usually a lack of transfer of management responsibilities to highly skilled Jamaican nationals.[86] There is also generally a lack of middle managers in the country.

---

[82] Report by Kurt Salmon, "A Regional Comparative Analysis," 1.

[83] Ibid.

[84] Interview with Official of the Kingston Free Trade Zone by author (Kingston, Jamaica: May 2000).

[85] Jampro Marketing Plan, 1996 - 1997.

[86] "Second Draft of a Regional Comparative Analysis," Kurt Salmon Associates, 1997.

Companies cited the high incidence of industrial disputes as reason to question the viability of operating in such an environment.[87] Training was identified as a need throughout the companies in the industry, particularly at the middle management level. The companies also stated that the training provided by the government program, HEART, was not adequate for firms who preferred in-house training.[88] Other labor issues that have been identified include the wage and benefits costs which have been cited as higher in Jamaica than in some other developing apparel exporting country, even in the Caribbean region.

(2) **Transportation**

The lack of adequate and reliable transportation has caused a serious problem for Jamaican garment manufacturers. It was not unusual for workers to arrive late to work and exhausted after having to wait for buses which were late. Companies were not able to implement alternate work shifts and offer overtime to workers due to the lack of transportation. Companies which tried to resolve the problem by purchasing their own buses to transport their workers, found the added expense costly and complained that the level of General Consumption Tax (GCT) charged on the buses being imported was too high.[89]

---

[87] Jampro Marketing Plan 2000 - 2001.

[88] Coopers and Lybrand Associates Ltd., "Jamaica National Export Corporation, Export Garment Industry Survey " (Kingston, Jamaica: Jampro, 1988).

[89] "A Regional Comparative Analysis," Report by Kurt Salmon, 1998.

(3) **Security Issues**

Security is a major issue for Jamaica. High incidence of crime and violence affect the number of workers who are willing to travel to the locations of the factories, usually the FTZs, to work. In addition, there was a lack of available housing in close proximity to these locations where factories are set up. In another security related issue, companies have begun to take measures to combat the problem of contamination of their apparel shipments with illegal drugs/narcotics. Apparel executives view the need for extreme security procedures to guard against the inclusion of illicit shipments as a major detriment to operating in Jamaica.

There have been instances where searches carried out by U.S. customs resulted in costly delays and cancellation of contracts as a result of narcotics being smuggled among garment shipments to the U.S. In the mid 1980s, several U.S. importers cancelled 807 contracts with producers after the discovery of drugs within their shipments.[90] To combat this problem, some companies installed elaborate and expensive security systems adding to the overall operating costs of their business by as much as 8%.[91] The shipment security measures required in Jamaica, within the factories and on the roads, are without parallel in the Caribbean Basin.[92]

---

[90] Steele, "The Caribbean Clothing Industry," 122.

[91] "The Jamaican Garment Industry," 1.

[92] "Second Draft of a Regional Comparative Analysis," Kurt Salmon, January 1997.

(4) **The Cost of Capital**

As in most developing countries, the cost of capital is relatively high in Jamaica. Jamaica's interest rates at times were about five times that of Barbados, for example.[93] In addition, many of the smaller companies that needed loans most could not qualify for them. This was even more crucial for companies which were operating with old and obsolete machinery and equipment. Many of these companies have found it difficult to meet required international standards of quality and quantity. It has also constrained their ability to produce different types of garments.[94]

(5) **Other Operating Costs**

Companies have complained about the high utility costs, the large deposit required and the need for a backup power source, which add to existing high operating costs. Complaints have also been made about the rental rate of the factory space and the insurance rates as being somewhat costly. As most of the factories are rented as shells, some manufacturers feel that the costs of setting up offices and other infrastructure are too much to allow them to operate profitably. Another problem which had been noticed was the shortage of factory space in the Kingston area, a location many manufacturers prefer.[95]

For the companies engaged in full packaging, importing the necessary accessories and raw materials were becoming increasingly expensive. High technology machines

---

[93] Jampro Marketing Plan, 2000 - 2001.

[94] Jampro Marketing Plan, 1996 - 1997.

[95] Ibid.

which are not available in Jamaica had to be sourced from overseas, often resulting in a high incidence of downtime. The lack of backward linkages has impeded the growth and development of the local, indigenous industry since all raw materials have to be imported, coupled with the difficulty encountered in acquiring spare parts.

Some companies, particularly the small locally owned establishments, have complained about the U.S. contractors not paying them on time and sometimes, withholding payments for obscure reasons. For these small companies, the delay could mean the closing down of their operations.[96]

(6) **Bureaucracy**

The processes involved in export administration in Jamaica is extremely complex and are often considered as a disincentive to exporting. The procedures can be intimidating to the novice business owners and serve to discourage them from becoming involved in the process. There are 6 main instruments used to control the system:[97]

1) Exporter Registration: All exporters are required to register with the trade board;
2) Certificate of Jamaican origin: This requirement was introduced in 1985 as a means of combating transshipment - to ensure that Jamaican suppliers rather than those from third countries, received the full benefits of the U.S. import quotas;
3) Visa: The visa and certification system requires that all shipment of products not falling in 807a categories are certified as correct in category and quantity. This step

---

[96] Interview with owner of Jamaican owned garment company by author (Kingston, Jamaica: May 2000).

[97] Steele, "The Caribbean Clothing Industry," 114.

was introduced to overcome the administrative complexity over the treatment of 807 goods.

4) Customs Clearance: This process involves the physical inspection of garment export shipments in an effort to stop the practice of concealing drugs and other illegal substances in export shipments.

5) Bank of Jamaica Compliance Certificates: All export earnings have to be sold to the Bank of Jamaica at prevailing rates of exchange and compliance certificates secured.

6) Tax Compliance Certificates: These are prerequisites for obtaining many of the benefits available to exporters.

In addition to this administrative maze, companies have complained that customs officers are not sensitive enough to the speed with which imported raw materials have to be cleared. There were instances where garment manufacturers have been threatened with cancellations as a result of delays.[98]

The mid 1990s saw a number of factories closing down their operations as both local and foreign owners complained of the rising costs. By 1997, the number of people employed within the sector was down to 88,900 from 100,400 in 1996.[99] The total value of exports to all markets in 1996 totaled US$ 538,380,843, representing a decrease of 7.54% over exports for 1995 which amounted to US$582,271,295.[100] The value of U.S. textile/apparel exports to Jamaica also decreased by 9.82% with the greatest effect being

---

[98] Ibid.

[99] *Economic and Social Survey*, The Planning Institute of Jamaica (Kingston, Jamaica: 1997).

[100] Jampro, "A Regional Comparative Analysis," 1998.

in the area of 807, which decreased by 28.44%.[101] In 1999, there was a decline in the industry's production of 3.6%.[102] The main reason cited for the decline in exports to the U.S. were company closures and relocating to areas such as Mexico, Nicaragua, Haiti and Belize.[103]

Apparel manufacturers place much of the blame on the government of Jamaica for many of their problems. They charge that the essential support mechanisms which are vital to sustained development are inadequate and whatever processes were put in place earlier such as productivity incentives, marketing and promotion, were not being sustained or reinforced.[104]

The trend in the number of companies which closed or scaled down operations continued throughout the mid 90s causing various interests in the industry to appeal to the government for assistance to stem the losses that the sector was experiencing. A study conducted by Kurt Salmon revealed that the reasons given by the companies for taking such action included industrial unrest, the drug contamination problem, the complexity of dealing with customs, pilferage, low productivity, criminal activity - murders, stabbings, breakins - inadequate and unreliable transportation, poor worker attitude and high

---

[101] Ibid.

[102] *National Income and Product, Preliminary Report 1999*, The Statistical Institute of Jamaica (Kingston, Jamaica: 2000).

[103] Ibid.

[104] Interview with Jamaican garment manufacturer by author (Kingston, Jamaica: May 2000).

operating costs.[105] Factors contributing to high costs of operations included rental rates, utility costs particularly for electricity, high interest rates, the additional costs incurred for security, transportation and other motivational incentives for workers such as lunch and bonuses.[106]

The study reported that some costs in Jamaica were higher than in other countries in the CBI, and that the country was experiencing a "progressive deterioration" of its competitive position vis-à-vis other countries such as Mexico, Dominican Republic, Honduras and El Salvador.[107] The following table shows the difference in costs between Jamaica and Mexico for selected apparel items:

---

[105] Kurt Salmon Associates, *Second Draft of a Regional Comparative Analysis and Recommendations on Strategic Initiatives to Increase Apparel Sector Competitiveness and Market Effectiveness for Jampro* (Kingston, Jamaica: Jampro, January 1997).

[106] Ibid.

[107] Ibid.

TABLE 6.9

Full Package Cost Comparison Between Jamaica and Mexico for Selected Items ($/dozen)

	Workpants		Dress Shirt		Sweatshirt	
	Mexico	**Jamaica**	**Mexico**	**Jamaica**	**Mexico**	**Jamaica**
Fabric	38.40	38.40	49.50	49.50	32.66	32.66
Trim,Thread	12.00	12.00	13.50	13.50	7.80	7.80
U.S. Cutting	3.36	3.36	4.75	4.75	3.60	3.60
Direct Labor and Fringes	4.12	4.83	6.76	7.92	3.83	4.48
Indirect Labor and Fringes	2.77	4.07	4.54	6.68	2.56	3.77
Overhead	1.71	2.22	2.80	3.63	1.58	2.05
U.S. Overhead Allocation	.42	.61	.68	1.00	.38	.57
Support Charges	.09	.11	.14	.18	.08	.10
Offshore Assembly						
Before Depreciation	9.10	11.84	14.92	19.41	8.43	10.97
Depreciation	.89	.00	1.46	.00	.82	.00
After Depreciation	9.99	11.84	16.37	19.41	9.25	10.97
Freight	.85	1.73	1.14	2.55	1.72	2.90
Duty	.00	4.03	.00	4.54	.00	4.49
Other Charges	.00	.22	.00	.28	.00	.19
Other						
Interest	1.12	.69	1.58	.86	.97	.59
Income Tax Expense	.00	.00	.00	.00	.00	.00
Total Offshore Assembly Costs	84.82	95.95	118.14	134.21	73.68	85.14

Source: Jampro, 1997 Kurt Salmon Associates Study

Full package comparison with Mexico has Jamaica approximately $11.00 per dozen more expensive in workpants, $16.00 per dozen more expensive in dress shirts, and $11.00 per dozen more expensive in sweatshirts.

Compounding the problem for Jamaica was Mexico's increasing competitiveness. Mexico went through a devaluation in the peso in 1994 significantly increasing the country's competitiveness as a source of manufactured products including textile and apparel. At the end of 1996, two major foreign owned companies announced they were ceasing operations in Jamaica citing high operating costs as the reason. In 1997, three companies that closed in Jamaica relocated to Mexico - Manchester Apparel, Hanes International and Fruit of the Loom.[108]

In addition, the U.S. market in 1996 experienced a downturn or softening in demand for apparel, which caused many major U.S. companies to reduce the volume of work being sourced from Jamaica and other CBI countries.[109] Jamaica's main competitors in order of importance are Mexico, Dominican Republic, Honduras, El Salvador, Guatemala, Costa Rica, Nicaragua and Haiti.[110] Most of these countries produce the same products as Jamaica for the same target market. Besides, they enjoy certain relative advantages: economies of scale due to the availability of labor and

---

[108] *1996 - 1997 Annual Report*, Textile and Sewn Products Division, (Kingston, Jamaica: Jampro, 2000).

[109] Ibid.

[110] Jampro Marketing Plan 2000 - 2001.

economies of plant size; access to technology; a developed infrastructure and proximity to major markets.[111]

Jamaica's Main CBI Competitors

Apparel constitutes one of the fastest growing categories of imports from CBI countries, valued at close to $5.5 billion in 1995. It has ranked as the leading category of U.S. imports from the region since 1988.[112] Since 1983, the top garment assembler nations in the Caribbean Basin - Barbados, the Dominican Republic, Costa Rica, El Salvador, Guatemala, Haiti, Honduras and Jamaica, - have accounted for most of all Item 807 imports from that region. By 1989, the major exporters in the Caribbean, the Dominican Republic, Haiti and Jamaica, accounted for $938 million or two third of all Item 807 U.S. imports from the region, up from $240 million. The CBI's textile and apparel industry relinquished considerable market share in 1994.

The Dominican Republic: This country has well established infrastructure in industrial parks and is the largest 807 apparel exporter in CBI. When the U.S. made the four leading Asian newly industrializing countries (NICS) ineligible for tariff treatment of certain imports under the GSP, Korean firms began locating more plants in the Dominican Republic than in the Eastern Caribbean. Taiwanese firms, on the other hand, seemed to prefer Central America than the Caribbean.

The Dominican Republic is more wage competitive than other Caribbean countries. The monthly minimum wage for Dominican Republic workers in the late

---

[111] Ibid.

[112] Second Report to Congress on the Operation of the Caribbean Basin Economic Recovery Act (Washington, D.C.: USTR).

1990s was less than the average weekly wage for the Eastern Caribbean counterparts, including Jamaica. Along with wages, the industrial space in the free zones is cheaper than in the region. As a global platform, the Dominican Republic is more attractive than the English speaking Caribbean. In 1999, the Dominican Republic exported a total of $US2,336.96 million of garments.

Honduras: The foundation of the Honduran apparel industry was created years before the CBI was implemented and began promoting the industry in the region, when the country established itself as the traditional exporter to the other Central American nations. Honduran legislation is one of the most flexible in the region with minimal bureaucracy exercised in the free trade zones. While customs processing in other countries may take up to three days, in Honduras the process can take as little as half an hour.[113] The private industry in Honduras contributed to the construction of industrial parks equipped with advanced technology and up-to-date infrastructure that attracted investment. Honduras thus distinguished itself in its efforts to increase its apparel industry productivity. According to the Honduran Maquiladores Association, the country exported $741 million in assembled garments to the U.S. from January to June 1997. From June 1996 to June 1997, Honduras exported $1.4 billion in apparel.[114] While

---

[113] Mercedes Cortazar, "Honduras Survives Mexican Competition," *Apparel Industry International* (November/December 1997): 1.

[114] Ibid.

exports from Honduras showed a 15.24% increase in 1999, the value of Jamaica's exports over the same period declined by 18.37%.[115]

Therefore, by the mid to late 1990s, Jamaica had lost its competitive edge and was no longer one of the lowest cost options, but one of the highest for apparel sourcing in the Caribbean Basin. The industry itself had also come to perceive a lack of interest on the part of the government in its support of the manufacturing sector, in particular the apparel sector.

Jamaica's Government's Response to Complaints from the Industry

In December 1996, in response to the industry's increasingly vocal concerns, the government through the Ministry of Industry, Investment and Commerce, instituted a special Assistance Program to aid the apparel and sewn products subsector in reducing the rising operating costs for financing, security, factory rental, and to re-tool in order to increase value added production and stem the decline in employment.[116] Special emphasis was placed on technical assistance, security strengthening, and financial support.[117] These measures were intended to retain jobs, enhance market entry and penetration, raise productivity output, and increase competitiveness.[118] Some of the specific aspects of the program included an industry comparative analysis, a public relations and advertising program, the establishment of a national Export Security

---

[115] Ibid.

[116] *Economic and Social Survey*, 1999.

[117] *Economic and Social Survey*, 1997.

[118] Jampro Marketing Plan 1996 - 1997.

Council, posting of security at Garmex Free Zone, a Special Assistance Financing Program, dedicated transportation for the industry, increase in the minimum wage, and increase in the income tax threshold.[119]

The government also extended the EIEA so that partial exporters could benefit from the program, lifted the 5% customs duties levied on non-competing capital goods, and provided : 1) matching grants to firms to assist them in meeting the cost of specialized technical and marketing assistance; and 2) more creative investment marketing packaging that would take into account the needs of individual investors.[120]

The program was due to last for fifteen months beginning in January 1997, and to provide JA$ 200 million for the sector, with JA$ 40 million to be disbursed in the last quarter of the financial year ending March 31, 1997. The package was intended to provide 5% of the overall average operating cost of the industry.[121] It provided assistance in the areas of rental and security for both foreign and locally-owned companies with the latter also being able to claim for financing charges. The Special Assistance Finance Program was based on employment figures for the companies,[122] as demonstrated in the following table:

---

[119] Jampro, *Textiles and Sewn products Annual Report, April 1996 - March 1997* (Kingston, Jamaica: Jampro, 1998).

[120] Jampro Marketing Plan, 1996 - 1997 .

[121] "A Regional Comparative Analysis," Report by Kurt Salmon, 1998.

[122] Ibid.

TABLE 6.10

Breakdown for Special Assistance Finance Program

Employment	Group	$JA/month
10 - 50	Small I	10,000
51 - 100	Small II	24,000
101 - 300	Medium	62,000
301 - 500	Large I	190,000
501 and over	Large II	382,000

The government also incorporated two new policies, The National Industrial Policy (NIP) and the Single Entity Free Zone Status (SEFZS). The NIP, presented as a "Strategic Plan for Growth and Development" of the apparel sector by the government, sought to :

> provide a framework within which strategies can be developed to effectively meet the challenges of the 21st century, and to enhance the competitive position of the industry in the global marketplace.[123]

The SEFZS was designed to provide apparel companies within the customs territory, the same benefits as companies operating in the FTZs. In effect, these companies would not be required to pay tax on corporate profits, and they would be eligible for duty free concessions on capital goods and raw materials inputs for the life of the business.[124]

The Special Assistance Program was extended by the Jamaican government from its initial fifteen month period and was thought to have had some positive results. By the end of 1998, around fifty three companies were benefiting from the program. The number of closures for larger factories was reduced showing an improvement in the rate

---

[123] Jampro Marketing Plan, 1996 - 1997.

[124] Ibid.

of net job loss from 2,093 employees in 1997 to 1,060 in 1998. The use of improved accounting records enabled companies to make better business decisions.[125]

For the 2000 - 2001 period, the government has renewed its efforts to assist the industry. Among the strategies included in Jampro's Marketing Plan were the promotion investment opportunities in the sector to local and foreign investors; the advising of client companies on trade opportunities for items produced in the sector and develop appropriate marketing strategies for successful market penetration by companies; the promotion of investment opportunities geared to attract offshore investments and develop local businesses; and the increasing of Jamaica's presence in the world market by penetrating untapped markets.[126]

Despite its problems and challenges, the apparel subsector still remains one of the key contributors to the manufacturing sector in terms of foreign exchange earnings and employment. Jamaica is considered to possess certain features which the island can utilize to its advantage to promote the sector. The country has a track record as an apparel producing source with a number of internationally recognized apparel companies having wholly-owned operations and in some cases, contractural arrangements in the country. Some of these enterprises together with Jamaican companies, continue to win international awards for quality, output and packaging.

Jamaica is also considered to have a mature apparel sector with a good communication infrastructure - the network of roads, frequent and reliable air and sea

---

[125] *Economic and Social Survey*, 1997.

[126] Jampro Marketing Plan 2000 - 2001.

transport and efficient telephone system. The electric and potable water supply is also adequate. The country's social and entertainment facilities are also important assets. They continue to play a vital role in promoting the country as an offshore investment location. However, the sector has not yet demonstrated its potential as a catalyst for the development of other segments of the manufacturing sector, as seen by the lack of backward and forward linkages.

CARICOM's integration into a single market and economy, which will allow for duty free trade among member states, can provide opportunities for Jamaica's industry to expand its exports. There are indications that some of the investors who moved to Mexico are now experiencing serious difficulties with labor disputes and constantly changing rules of operation,[127] and thus may look for better opportunities elsewhere. Jamaican industry officials are hoping that these companies have left the option open of returning to the island.

The government through some of its efforts, is attempting to maintain the status quo of the industry through trade negotiations such as CBI Enhancement for continued market access, management of free zones, incentive programs for firms and employees, security controls on illicit drug trafficking, and efforts to improve the industrial relations climate.[128] The government's objectives for the industry include creating more jobs, assisting with start-up of investment projects, maintaining export earnings and increasing

---

[127] Ibid.

[128] Jamaican Government, *National Industrial Policy: A Strategic Plan for Growth and Development* (Kingston, Jamaica: April 25, 1996).

export earnings to the Caribbean.[129] The government has utilized the National Training Agency, HEART, and the marketing/promotion agency, Jampro, to train workers and promote the industry quite extensively. Both agencies have recently jointly acquired computer aided design equipment to give access to Jamaican manufacturers who may not have the resources for their own computers.

The Next Steps for Jamaica and its Industry

The apparel industry in Jamaica is dependent on the needs and demands of, and level of activity in the U.S. apparel market This reliance on the U.S. market places Jamaica's economy in a very vulnerable position. The country also has the opportunity, though extremely limited, to export to the European Union's market which is very diverse and fragmented.[130] The following table shows the various markets for Jamaican garment exports for 1994 and 1995:

TABLE 6.11

Direction of Jamaican Garment Sector Exports: 1994 - 1995 ($US Millions)

Market	1994 Export Sales	1995 Export Sales
U.S.	453.3	538.6
Canada	4.4	3.1
CARICOM	2.2	1.4
EU	25.9	45.4
Other	2.2	5.7

Source: Jampro, International Trade Division

[129] Jampro Marketing Plan, 2000 - 2001.

[130] "Second Draft of a Regional Comparative Analysis," Kurt Salmon Associates, 1997.

While Caribbean states make use of trade benefits with the EU, under the new Partnership Agreement, similar arrangements between the EU, its members and other non-member countries having low wage costs are also in operation. Countries such as Portugal, Algeria, Morocco, Tunisia, Egypt, Malta and Cyprus all have a developing apparel and textile sector which serves the EU market. Therefore, apparel manufacturers such as those in Jamaica that were historically cost competitive because of their supply of cheap labor now find that they can be at a disadvantage if lower labor costs are not combined with high levels of productivity and technology.[131] Manufacturers that had previously operated inefficiently in protected markets will now find themselves non-competitive as a result of freer trade. Thus, in order to make a significant dent in the European market, Jamaica, like other Caribbean exporters, will need to become more efficient and cost competitive producers.

At the end of the 1990s, a number of global developments gave the indication that the apparel industry in Jamaica and some other CBI beneficiaries would face tough times ahead. The increased push by the WTO towards trade liberalization and the enacting of the ATC are certain to have some profound impact on the global trade in textile and apparel. One development that Jamaica along with other regional exporters are placing their hopes on is the CBI Enhancement Bill, otherwise known as the CBTPA, that the U.S. government signed into law in May 2000.

---

[131] Ibid.

CHAPTER 7

IS NAFTA RESPONSIBLE FOR JAMAICA'S TEXTILE/APPAREL INDUSTRY WOES?

Caribbean Basin countries with sizable textile/apparel industries were elated when the U.S. Congress finally passed the Caribbean Basin Partnership Trade Act. Some of the countries are pinning their hopes on the Act to reinvigorate their textile/apparel industry and consequently their economies. Officials in Jamaica, for example, are of the opinion that the Act is exactly what their country needs in its efforts to rebound after years of economic decline. Jamaica's Ambassador to the U.S. stated that the Bill is " a good first step towards restoring Jamaica's competitiveness in a critical sector which has traditionally been a reliable base of employment for thousands of Jamaicans, with our women being the major beneficiaries of opportunities in this industry."[1]

The industry in Jamaica has experienced both growth and decline since the 1980s, when the government decided to target that sector as a major area for development. When the problems persisted or re-emerged in the mid 1990s, certain industry officials declared that NAFTA was partly to blame for the plant closings and subsequent loss of jobs that seemed to escalate after 1994. However, even Jampro officials admit that it is

[1] "Caribbean Welcomes New U.S. Trade privileges" *The Jamaican Observer* (November 6, 1999).

difficult to quantify the effects of the implementation of NAFTA on the Jamaican textile/apparel industry.

In an effort to investigate whether the problems in the industry can be tied to the implementation of NAFTA, it is important to look at what was occurring in certain key areas of the sector prior to and after NAFTA, and attempt to determine whether the pattern in the performance in these areas after 1994 was significantly altered from the pre 1994 years. If the performance in these areas indicates that there were significant changes after 1994, then a case can be made that NAFTA which came into effect in 1994, may have played a leading role in affecting those changes that occurred since then. This scenario is based on the assumption that there were no other significant developments and that all else within the sector remained relatively unchanged from the pre 1994 years.

The key areas that will be examined will be:

- the total number of textile/apparel plants opened
- the number of jobs created by these plants
- the total U.S. investment in terms of plants opened
- the number of plants closed
- the number of jobs lost as a result of these plant closings
- the amount of income lost as a result of the plant closings
- reasons given for the plants closures
- total textile/apparel exports to the U.S.

As mentioned previously, the focus of these areas being examined will be on the U.S./Jamaica trade in textile/apparel and the importance of the industry to the Jamaican economy. This section will also look at U.S./Mexico trade relations as a comparison to

U.S./Jamaica trade relations prior to and after 1994, since one of the arguments made is that the industry in Mexico is the beneficiary of the decline in the industries in the non-NAFTA member countries such as the CBERA states, including Jamaica.

Whatever the results of the study, the general consensus is that the textile/apparel industry is very important to the overall health of the Jamaican economy, and that steps must be taken either to stem the decline that the industry has been experiencing in the last couple of years.

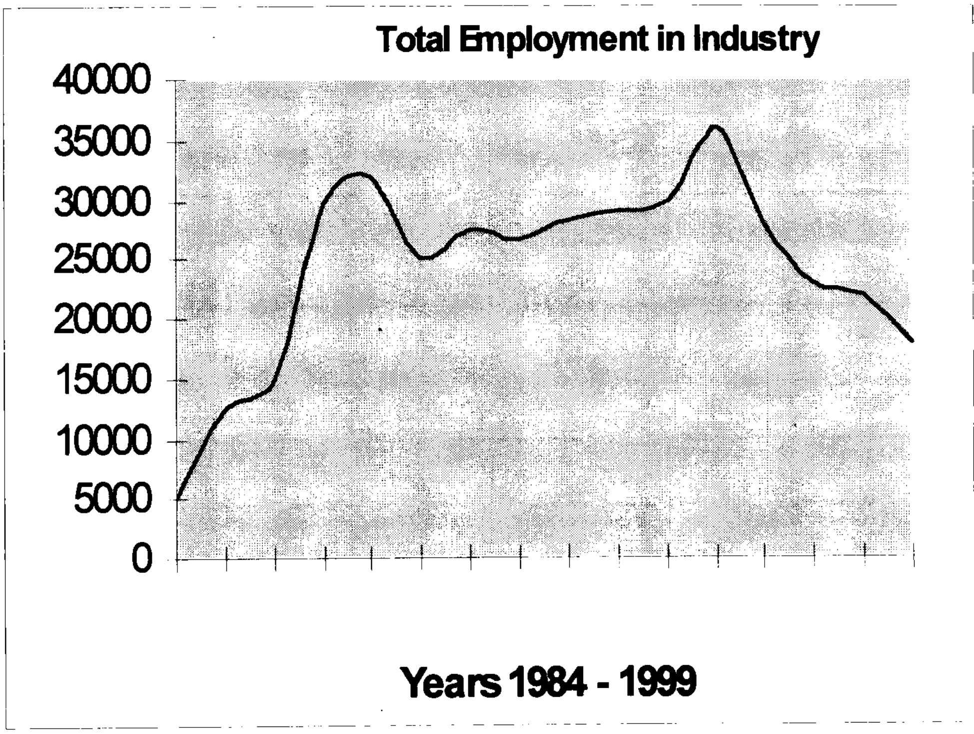
The Importance of the Textile/Apparel Industry to the Jamaican Economy

Employment

The textile/apparel sector has been identified by the government as one of the largest providers of employment, and the total number of jobs in the sector can be viewed as a reliable indicator of the growth in the sector over a period of time.

FIGURE 7.1

Total Employment in Textile/Apparel Industry



Total Estimated Employment in the Textile/Apparel Industry

Employment in the industry showed a steady growth from the mid to late 1980s (figures were not available for years prior to 1984), after which the numbers began to decline until the early 1990s, when total employment began to increase. By the mid 1990s, the figures showed a consistent decrease. It should be noted that some of the highest levels of employment in the industry occurred in 1993, 1994 and 1995, even as some plants were being shut down. The data for total employment in the sector reveals that although total employment in the industry began to fall after 1996, this trend was also noticed in pre 1994 years as in the period between 1989 to 1991.

Exports and Foreign Exchange.

FIGURE 7.2

Textile/Apparel Exports from Jamaica to U.S. : (millions of square meters)

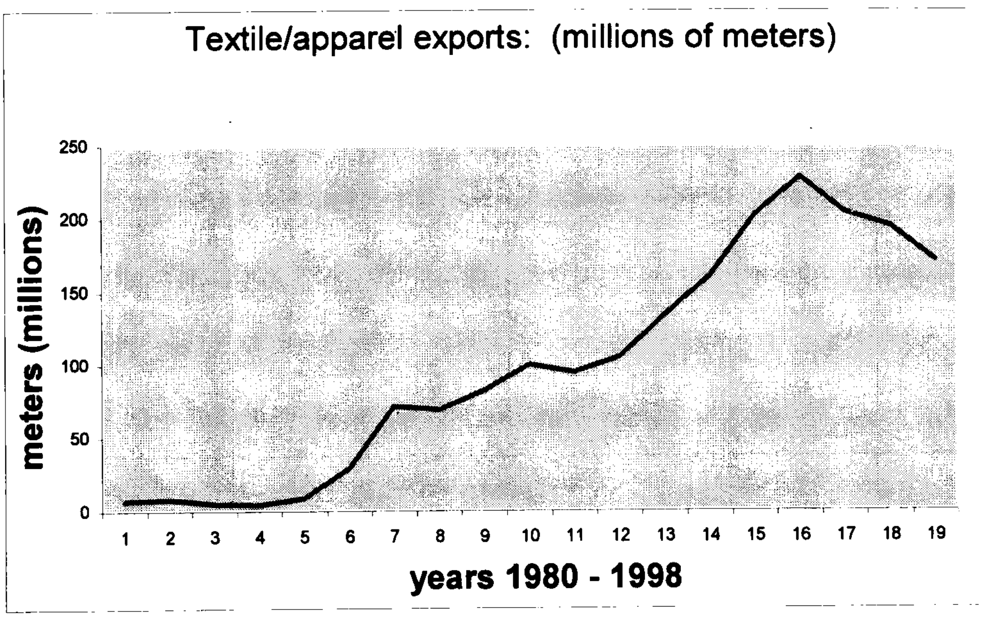
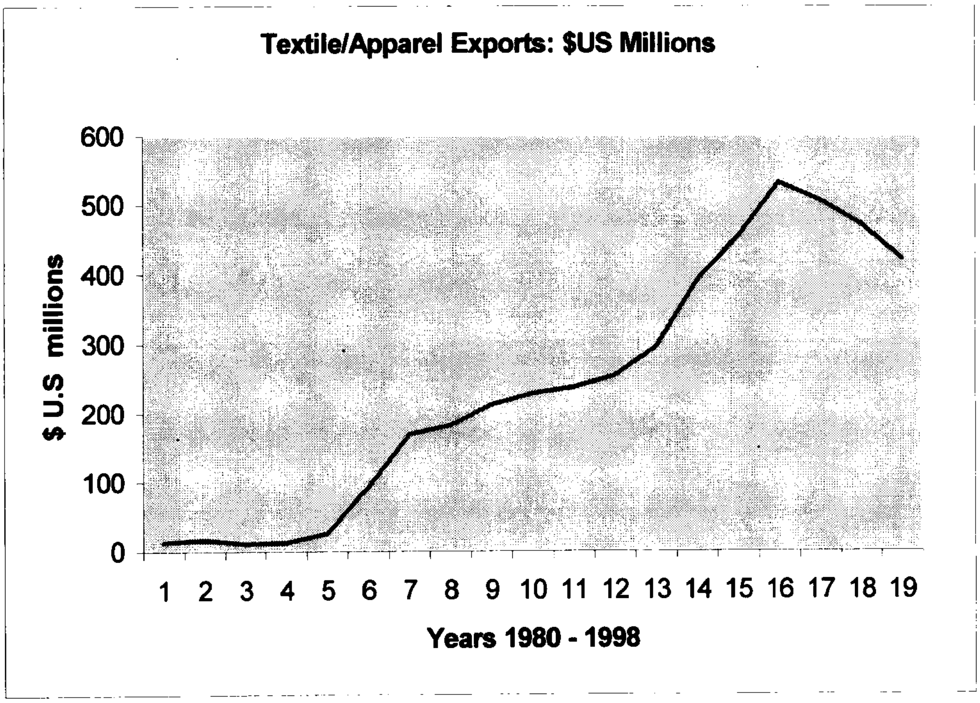


FIGURE 7.3

Textile/Apparel Exports from Jamaica to the U.S.: ($ U.S. Millions)



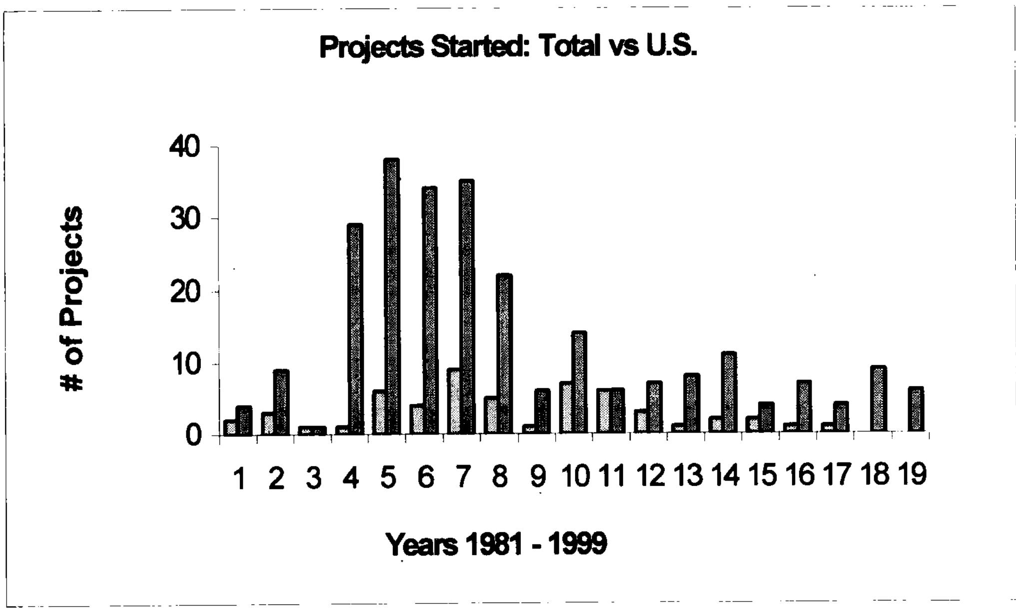
Textile /Apparel Exports From Jamaica to the U.S.

Textile/apparel exports from Jamaica to the U.S. increased in the 1980s from 7.293 million square meters in 1980 to 100.061 million square meters in 1989. The greatest increase in the 1980s occurred between 1984 and 1986. That increasing trend continued on in the early 1990s until 1995, after which time the volume of exports began to fall.

The foreign exchange earned from these exports followed a similar pattern with export earnings beginning to fall in 1996 after several years of consistent increase in the 1980s and early 1990s. The highest increase in export earnings occurred between 1984 and 1986. While in 1980, total exports from textile/apparel amounted to $13.506 million, by 1995, the amount increased to $531.934 million, and fell to $422.485 million in 1998.

FIGURE 7.4

Number of Textile/Apparel Projects Implemented: Total versus U.S.

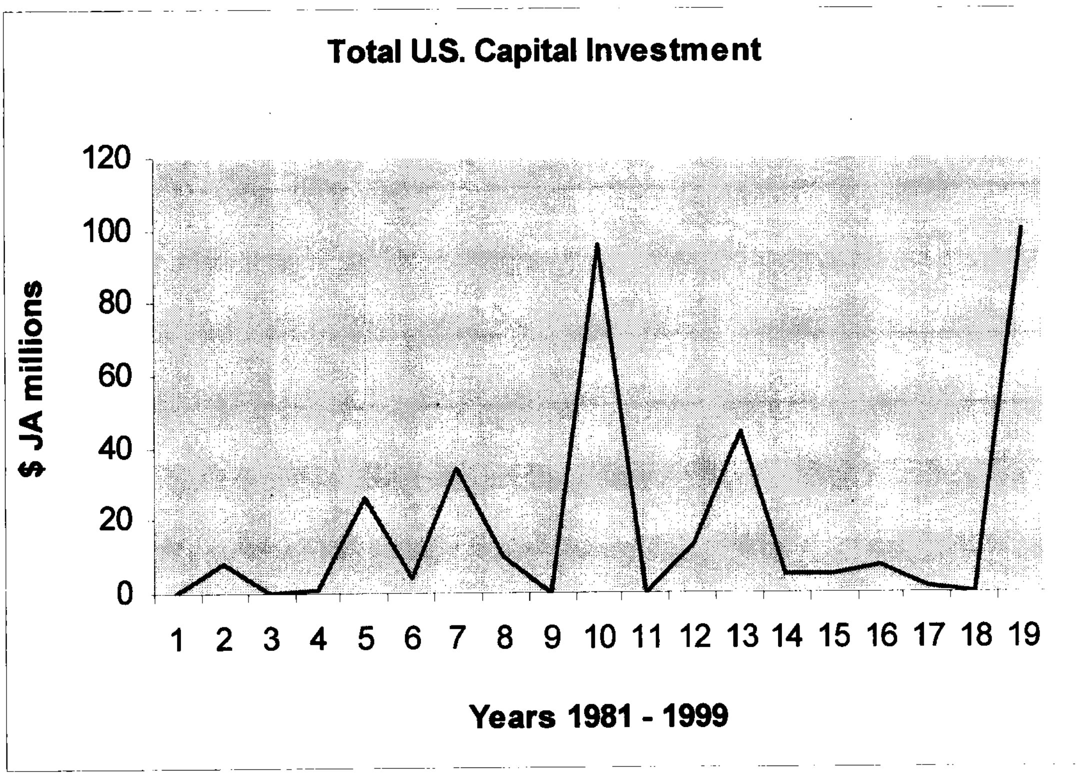


Number of Textile/Apparel Projects Implemented: Total versus U.S.

The total number of textile/apparel projects implemented was the highest in the period from 1984 through 1988, and also in the early 1990s. After 1994, the total number and the number of U.S. projects both decreased. However, the rate of the U.S. decrease was greater than that of the total rate.

FIGURE 7.5

Total U.S. Capital Investment in Textile/Apparel Projects : ($JA Millions)

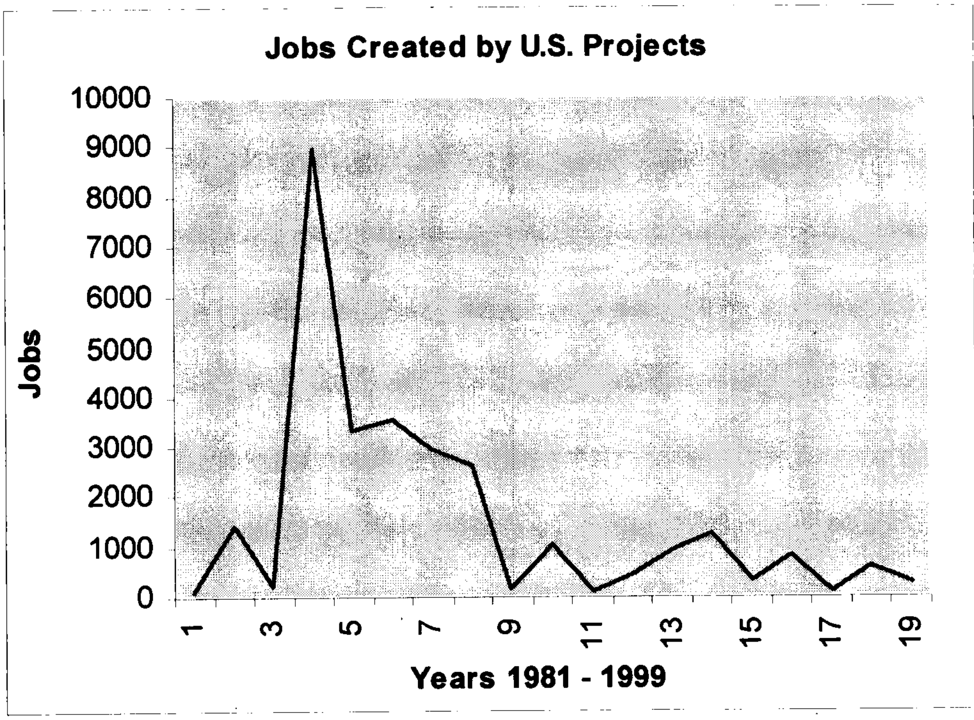


Total U.S. Capital Investment in Textile/Apparel Projects : $JA millions)

The total U.S. capital investment in textile/apparel projects showed increases between 1985 and 1993. A complete analysis of the trend cannot be made however, due to the unavailability of data for several years. Nevertheless, the level of U.S. capital investment seems to correlate with the number of U.S. plants that was started. There was a distinct decrease in the level of capital investment after 1994.

FIGURE 7.6

Total Jobs Created by U.S. Textile/Apparel Projects



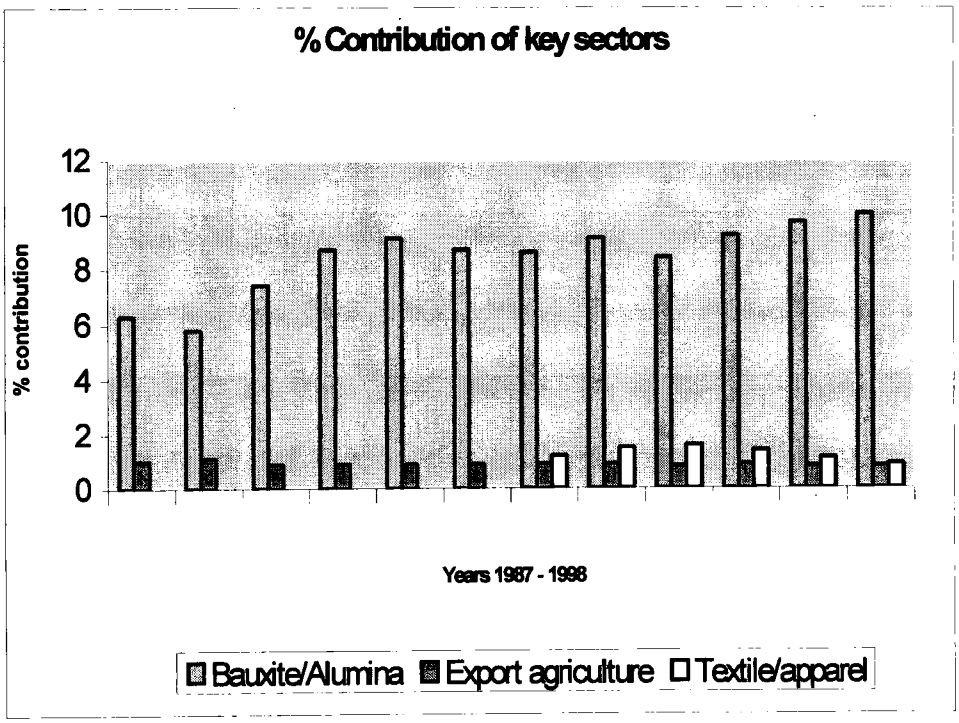
Total Jobs Created by U.S. Textile/Apparel Projects

Between 1981 and 1999, there is indication of both growth and decline in the industry during certain periods within that range in terms of jobs created. From 1984 through 1987, there was a growth spurt in the number of projects implemented, and a corresponding increase in the number of jobs created by these projects. It was also during this period that the CBI Textile Program was introduced with Jamaica signing a Bilateral Textile Framework Agreement with the U.S.

The number of jobs created by U.S. projects decreased consistently after 1989 as the number of projects also decreased. The data shows that the decrease in both the number of projects and the number of jobs created became even greater in the post 1994 period than in the pre 1994 years.

FIGURE 7.7

% Contribution of Key Sectors to Jamaica's GDP



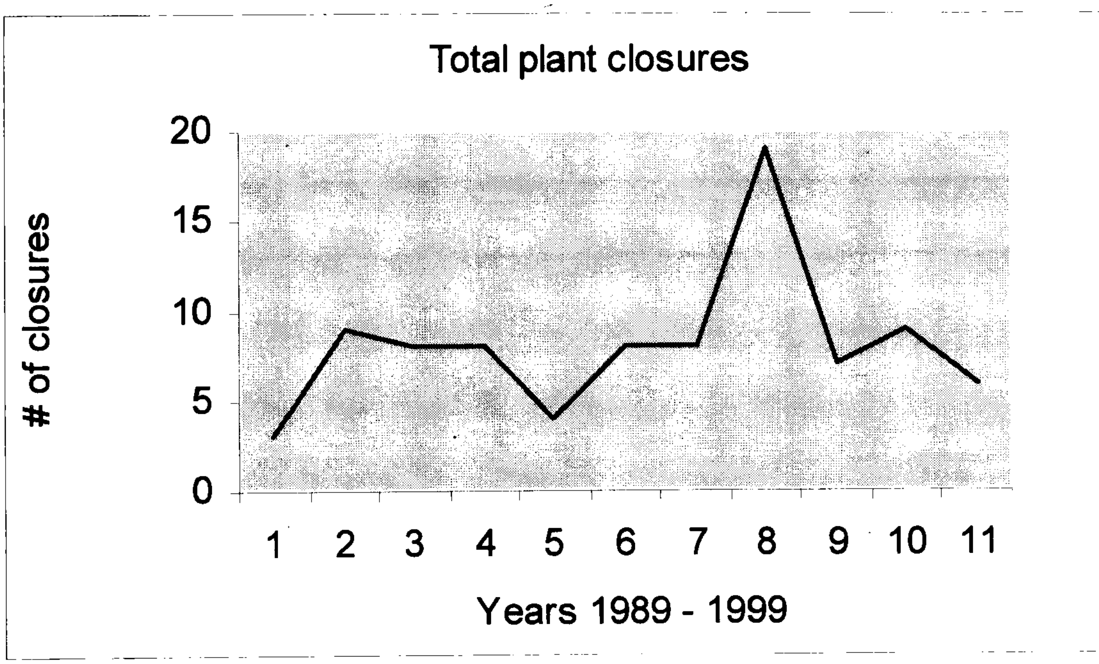
Contribution of Key Sectors to Jamaica's GDP: (%)

While the contribution of export agriculture to GDP in terms of percentage decreased between 1987 through 1998, the contribution of textile/apparel increased between 1993 through 1995, surpassing that of export agriculture. There were no figures available for the contribution of textile/apparel prior to 1993. However, this contribution began to decrease after 1996, even though it remained higher than that of export agriculture.

The contribution of the bauxite/alumina sector increased consistently between the years 1987 through 1998, remaining one of the highest contributing sectors to the country's GDP.

FIGURE 7.8

Total Textile/Apparel Plant Closures



Impact of Textile/Apparel Plant Closures on Jamaica's Economy

One of the areas to which industry officials point in order to support their case that NAFTA is luring textile/apparel investment away from Jamaica to Mexico is the incidence in the number of plants that are being opened and closed since NAFTA came into existence, and the resulting job creation and job losses.

Available data show that plant closures reached a peak in 1996 resulting in the highest number of job losses in the industry for the years 1989 through 1999. The years 1994 through 1996 experienced the greatest number of job losses, with the numbers remaining at a high level through 1999. Overall, the job losses in the mid to late 1990s were greater than in prior years.

One of the limitations in the study is that data for certain indicators were not available for a number of consecutive years. Jampro only began keeping statistics on plant closures beginning in the late 1980s, when the industry started experiencing problems. Additionally, the International Trade Commission (ITC) in Washington has not kept statistics on the total number of firms that have invested in Mexico since 1994, although they report that several have done so.[2]

---

[2] Paula L Green, "Report: Quota Phaseout to Hurt Caribbean," *The Journal of Commerce* (February 11, 2000) Some of the major companies that have invested in Mexico since 1994 include Burlington Industries Inc., Cone Mills Corp., and Guildord Mills Inc. all of Greensboro, N.C.; Dan River Inc., from Danville, Virginia; Tarrant Apparel Group, from Los Angeles, CA; and Galey and Lord from New York.

FIGURE 7.9A

Total Job Losses

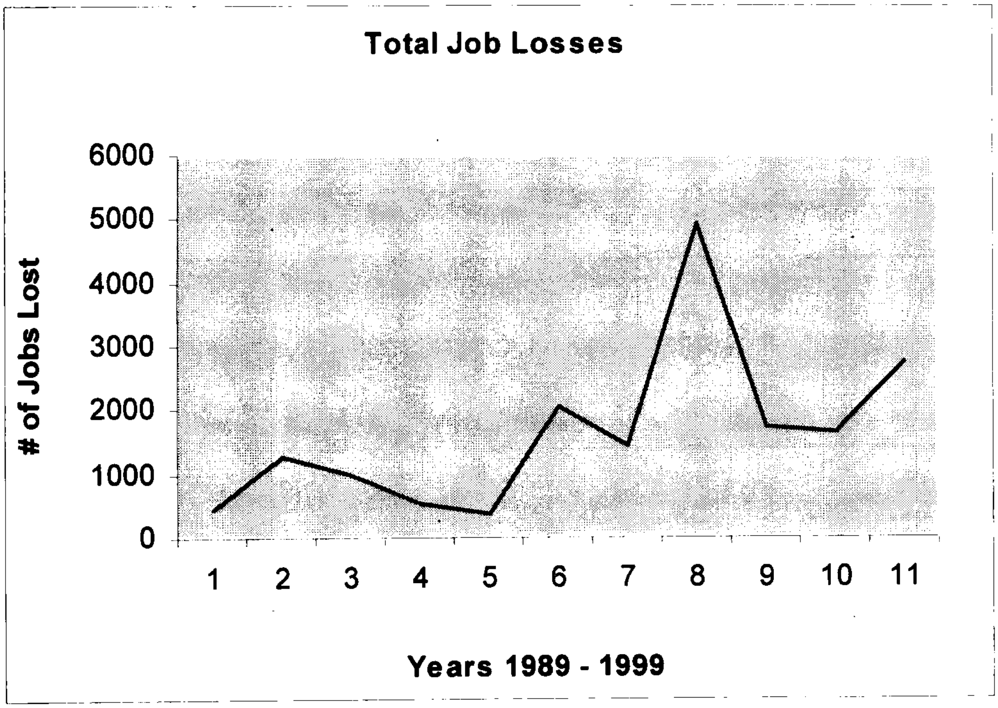
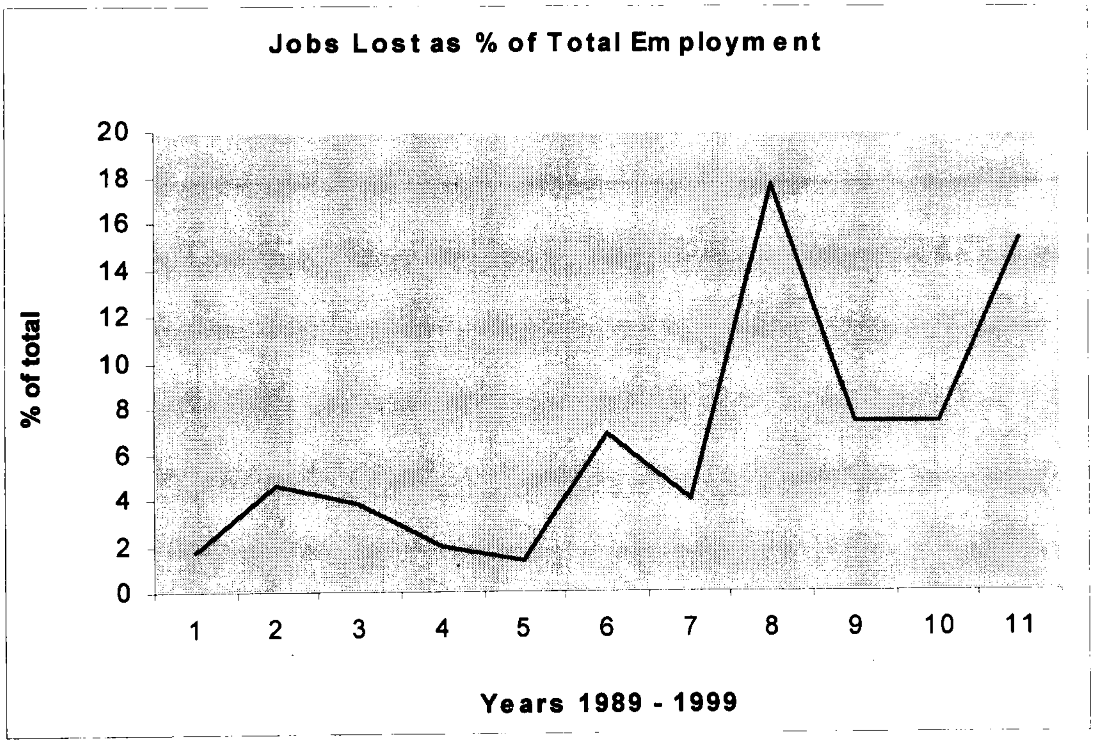


FIGURE 7.9B

Jobs Lost (due to Plant closings) as a % of Total Employment

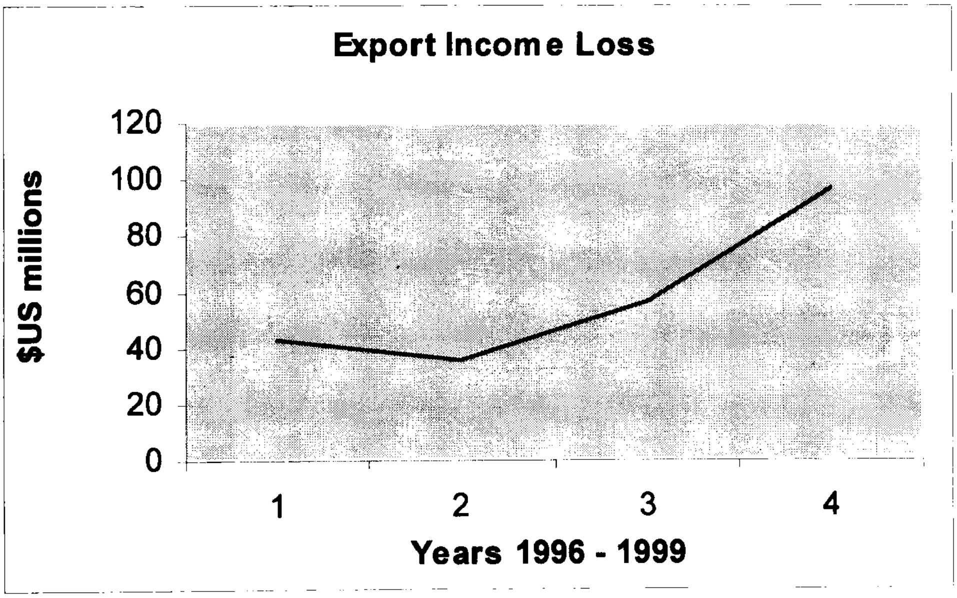


Jobs Lost (due to Plant closings) as a % of Total Employment

The jobs lost due to plant closures as a percentage of total employment also began increasing consistently after 1994.

FIGURE 7.10

Export Income Loss due to Plant Closures: ($ U.S. Millions)



Export Income Loss due to Plant Closure: ($ U.S. Millions)

Data available for export income loss due to plant closings were only available for years beginning 1996, and those show increasing income loss.

TABLE 7.1

Origin of Plants Closed

Details of Plant Closures 1996 - 1999

	Origin	# of Closures	Total Jobs Lost	Export Loss ($ U.S. Millions)
1996				
	U.S.	5	1061	16.500
	Jamaican	4	447	3.470
	Korean	8	2725	19.395
	Hong Kong	1	580	1.060
	Canadian	1	130	2.280
	Total	19	4943	42.705
1997				
	U.S.	3	900	10.603
	Jamaican	1	20	0
	Korean	1	320	4.780
	Hong Kong	2	470	19.770
	Total	7	1710	35.153
1998				
	U.S.	4	1050	38.449
	Jamaican	5	585	18.071
	Total	9	1635	56.52
1999				
	U.S.	6	2725	96.67
	Canadian	1	18	0.52
	Total	7	2743	97.19

Source: Compiled from data from the Textile/Apparel Division, Jampro

Origin of Plants Closed

Statistics show that most of the firms closed beginning in 1996 through 1999, were overwhelmingly from the U.S. and Korea. Local Jamaican firms also made up a large number of plants closed within that period.

TABLE 7.2

Reasons for Plant Closures:

Year	Total Closures	Lack of Work	High Operating Costs	Finance	Loss of Contract	Other
1996	19	2	13	2		2
1997	7	1	5			1
1998	9	1	4		2	2
1999	7	1			2	4

TABLE 7.3

High Operating Costs as % of Total Closures

1996	0.68
1997	0.71
1999	0.00

Source: Compiled from data from the Textile and Apparel Division, Jampro

Reasons for Closures

Available data indicate that of the companies closed in the years 1996 through 1999, the most popular reason given for the closures was high operating costs. Other reasons given were lack of work, unaffordable or high costs of financing and the loss of contract.

FIGURE 7.11

U.S. Merchandise Trade Balance with Jamaica: ($ US Millions)

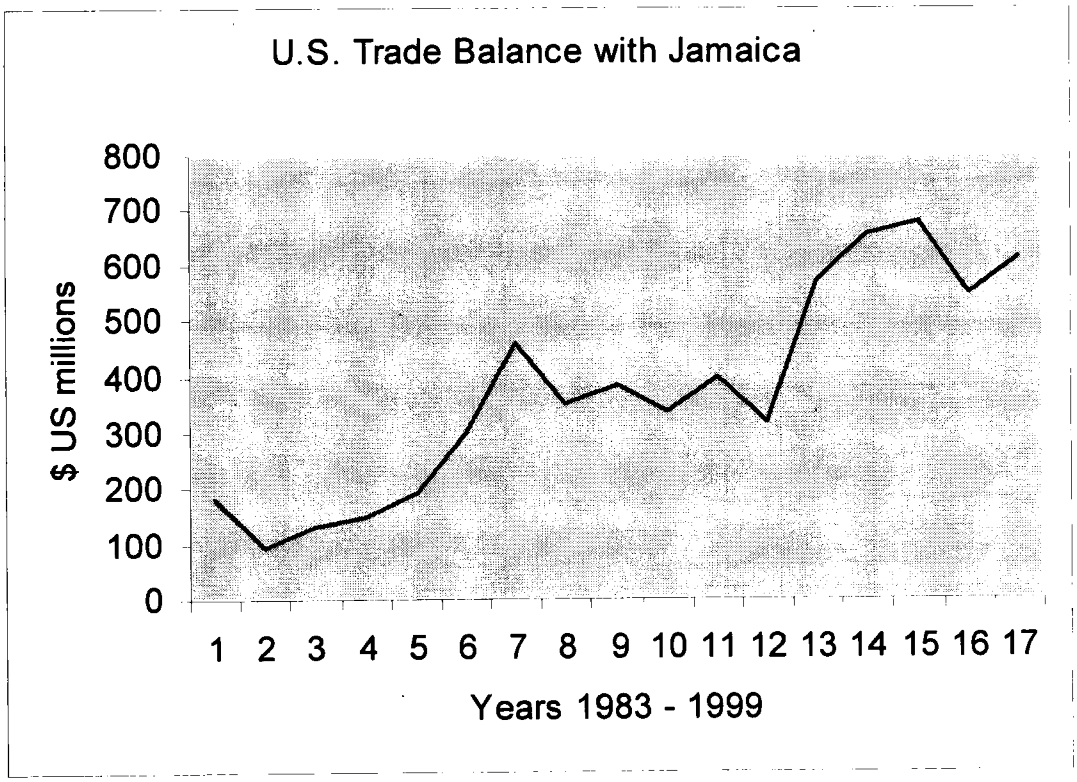
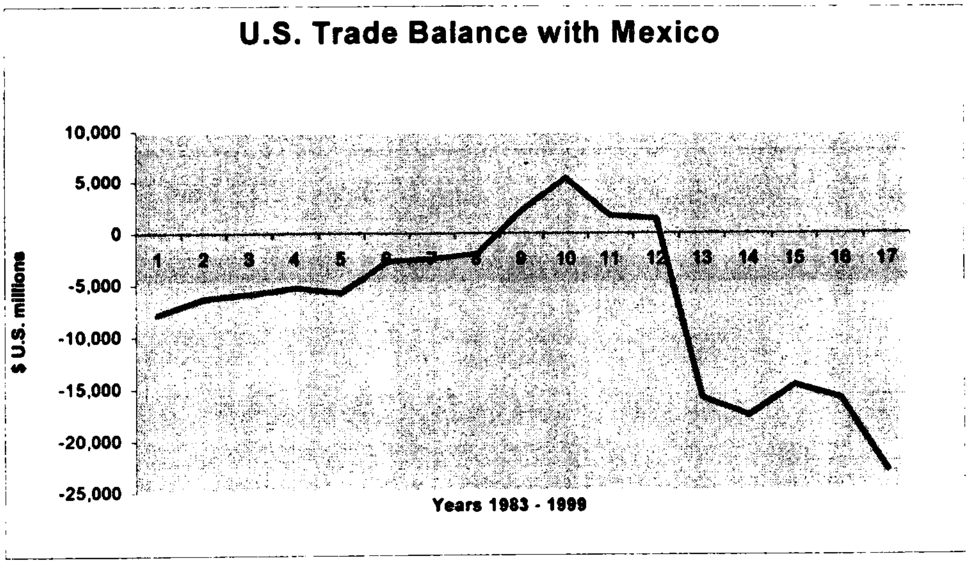


FIGURE 7.12

U.S. Merchandise Trade with Mexico : ($ US Millions)



U.S. Trade Merchandise with Jamaica

One of the claims that has been made about NAFTA by Jamaican officials is that Mexico will be the beneficiary of trade diversion between the U.S. and Jamaica. However, in analyzing trade data among the three countries, the following was shown:

- The U.S./Jamaica trade relations showed that the U.S. has enjoyed an increasing trade balance with Jamaica from the 1980s through the 1990s. However, beginning in the mid 1990s, U.S. exports to Jamaica increased at a higher rate than U.S. imports from the country, resulting in a higher rate of increase in trade balance for the U.S.
- Compared with the U.S./Mexico trade relations, data indicates that Mexico enjoyed positive trade balances with the U.S. between the years 1983 through 1999 (except for

between 1991 - 1994), with the balance increasing at a higher rate beginning in 1995 through 1999.

The significance of this comparison between U.S./Jamaica trade balance and U.S./Mexico trade balance is that Mexico had a history of positive trade balances with the U.S. even before the implementation of NAFTA, while Jamaica had a negative trade balances with the U.S. in the years prior to and after NAFTA.

While in the case of Mexico, the trade balance with the U.S. after NAFTA increased at a higher rate than in previous years, in the case of Jamaica, its negative trade balance with the U.S. after 1994, increased at a lower rate. This data do not support the assertion that Mexico's trade with the U.S. benefited the former at the expense of Jamaica's trade with the U.S. as a result of NAFTA.

FIGURE 7.13

Textile/Apparel Exports from Mexico to the U.S. ($ U.S. Millions)

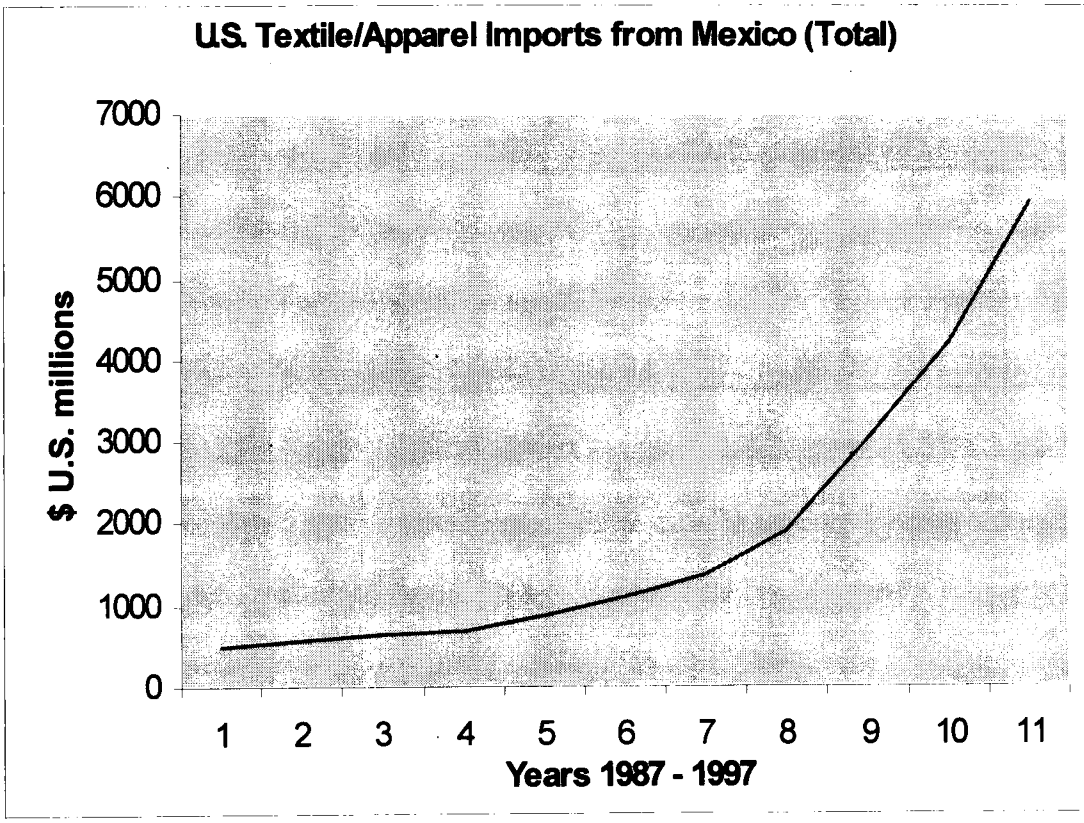


FIGURE 7.14

U.S. Textile/Apparel Imports from Mexico : (Increase)

FIGURE 7.15

% Increase in Textile/Apparel Exports from Mexico to U.S.

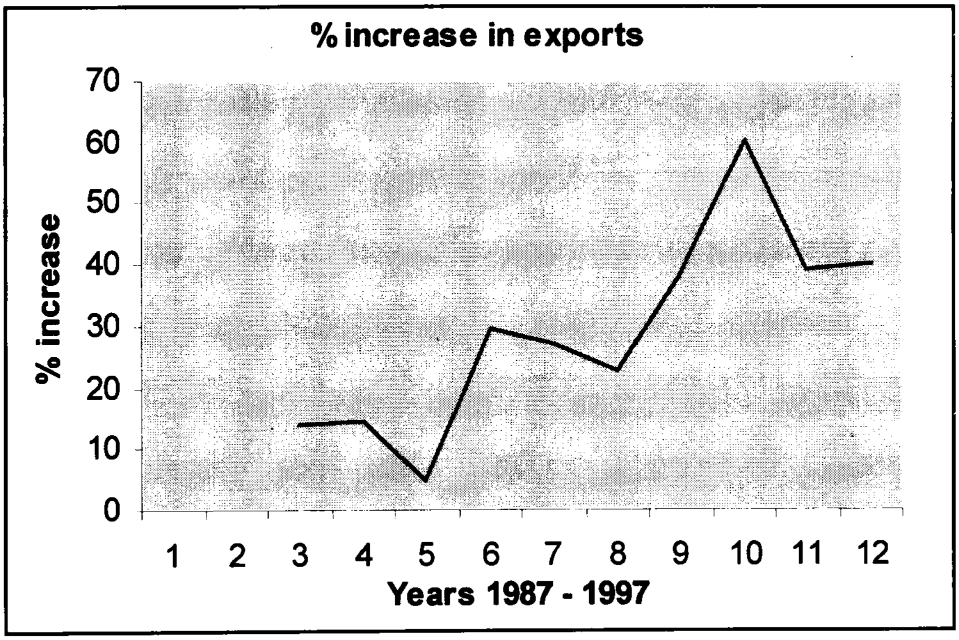


FIGURE 7.16

807 Textile/Apparel Exports from Mexico to U.S.: ($US Millions)

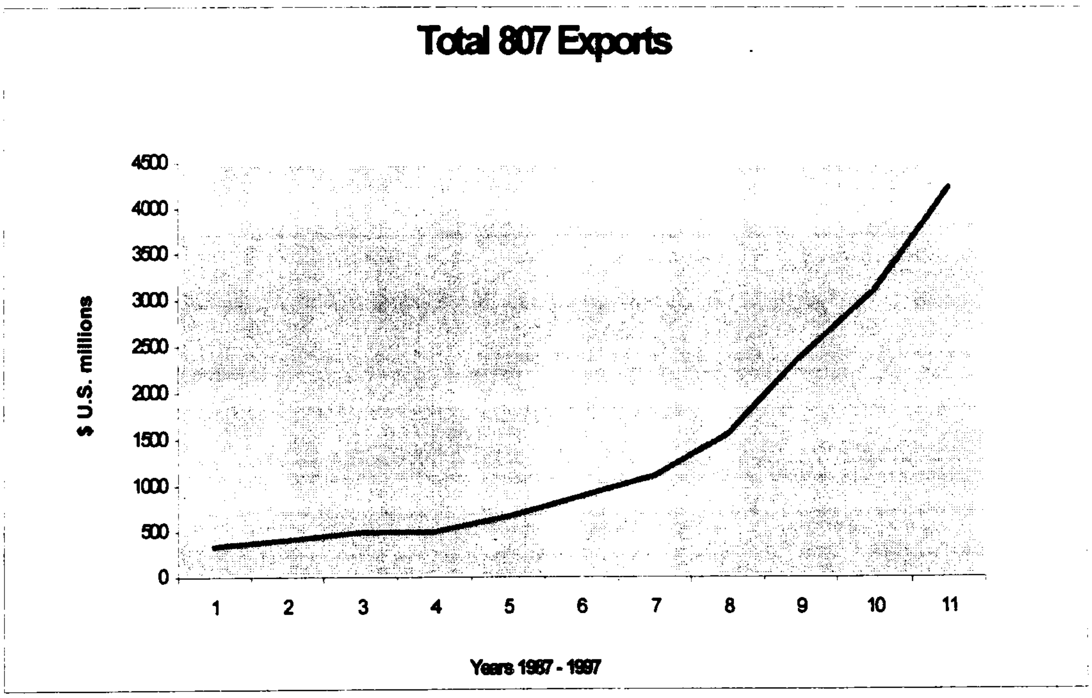
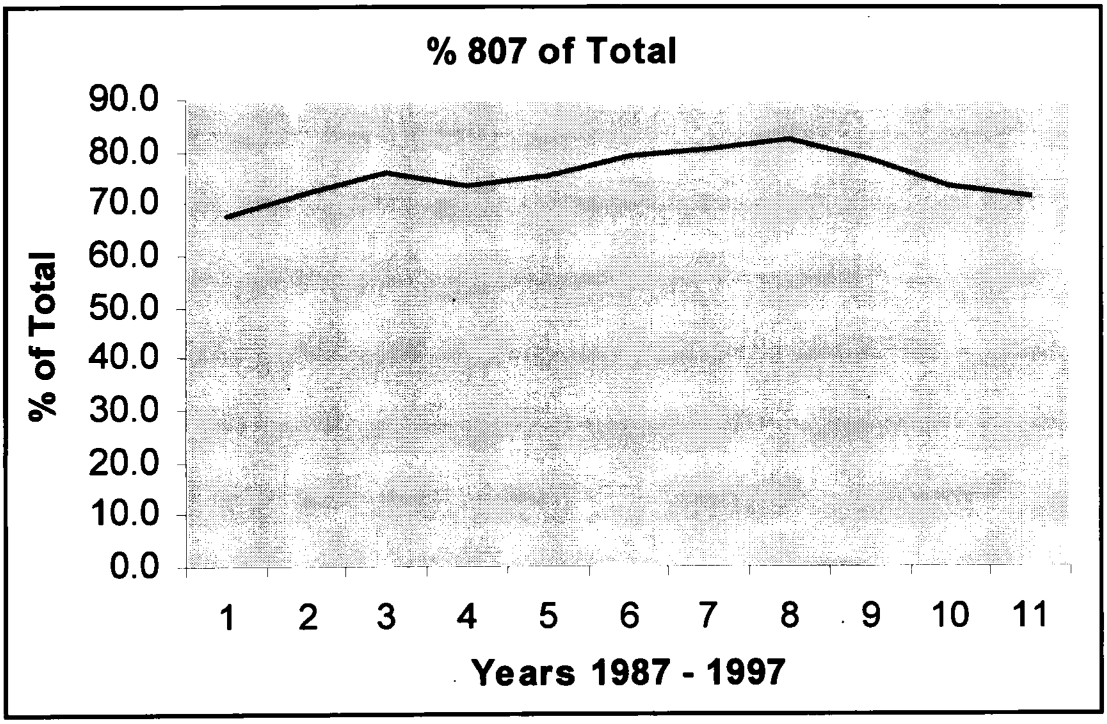


FIGURE 7.17

807 Textile/Apparel Exports from Mexico
as a % of Total Textile/Apparel Exports
($ U.S. millions)



Textile/Apparel Exports from Mexico to the U.S.

The issue of loss of the Jamaican textile/apparel market in the U.S. to Mexican exports is also analyzed by looking at the U.S./Jamaica textile/apparel trade and U.S./Mexico textile/apparel trade. As was seen with the U.S./Jamaica textile/apparel trade (Tables 7.2 and 7.3 and Charts 7.2 and 7.3), the volume of exports in millions of square meters consistently increased from 1980 to 1995, after which time decreases began to be recorded. In the case of dollar exports, the same trend was seen.

In the case of Mexico, there was a consistent increase in the dollar value of textile/apparel exports from 1987 through 1997 with higher rates of increases occurring after 1991. While the rate of increases in Mexico's exports to the U.S. grew at a faster rate after 1994 than prior to 1994, in the case of Jamaica, the volume of exports began to decrease. It will be difficult to assume that the gain in Mexico's export trade came at the expense of the decrease in Jamaica's trade since both countries showed an increasing trade trend prior to 1994.

Also, as was mentioned earlier, companies that were closing down in Jamaica gave 'increased operating costs' on the island as the most popular reason for their closures. However, many of those companies did not indicate whether or not they were relocating their operations from Jamaica to Mexico.[3]

The 807 exports from Mexico to the U.S. showed an increasing trend between the years 1987 through 1997. However, the percentage of 807 exports of total Mexican exports to the U.S. remained relatively at the same levels from 1987 through 1997, actually showing a slight decrease from 1995 through 1997. This is significant since many of the U.S. companies that were leaving Jamaica were producing 807 exports. Mexican 807 exports would most likely have risen had these companies relocated there after closing their operations elsewhere.

---

[3] Interview with official from the Jamaica Free Zone by author (Kingston, Jamaica: May 2000).

FIGURE 7.18

Total Textile/Apparel Exports from CBI to U.S.
($ U.S. Millions)

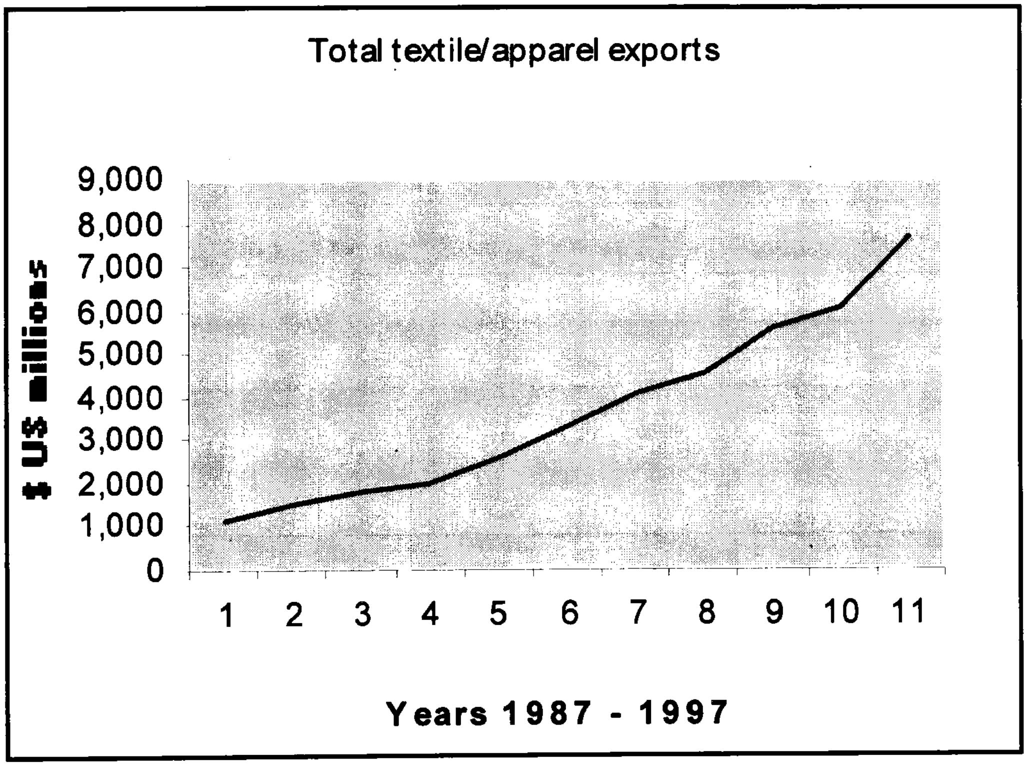


FIGURE 7.19

Total 807 Exports from CBI to U.S
($U.S. Millions)

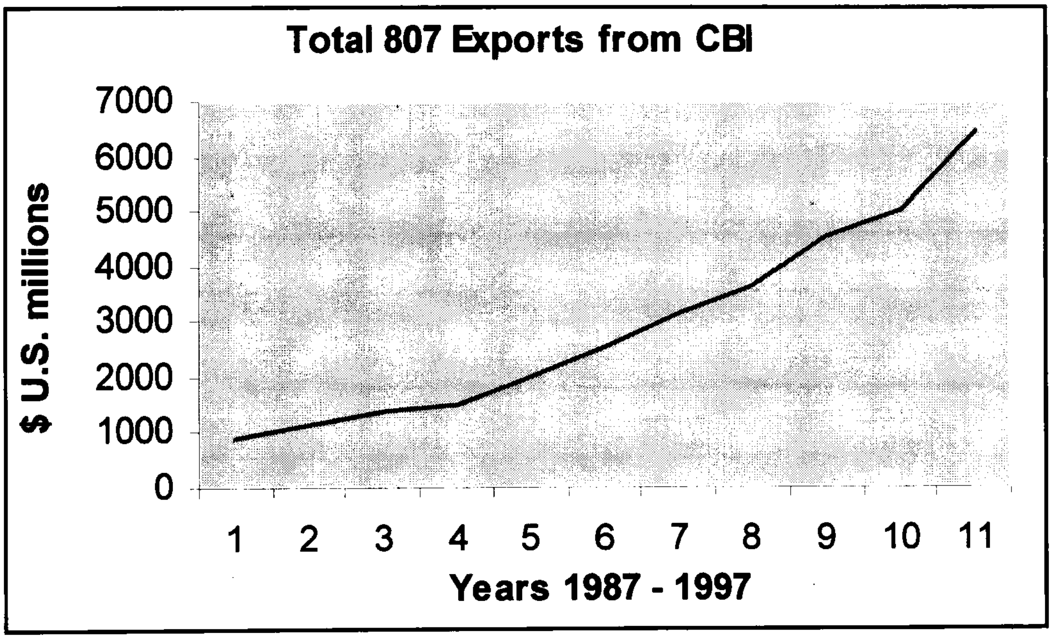
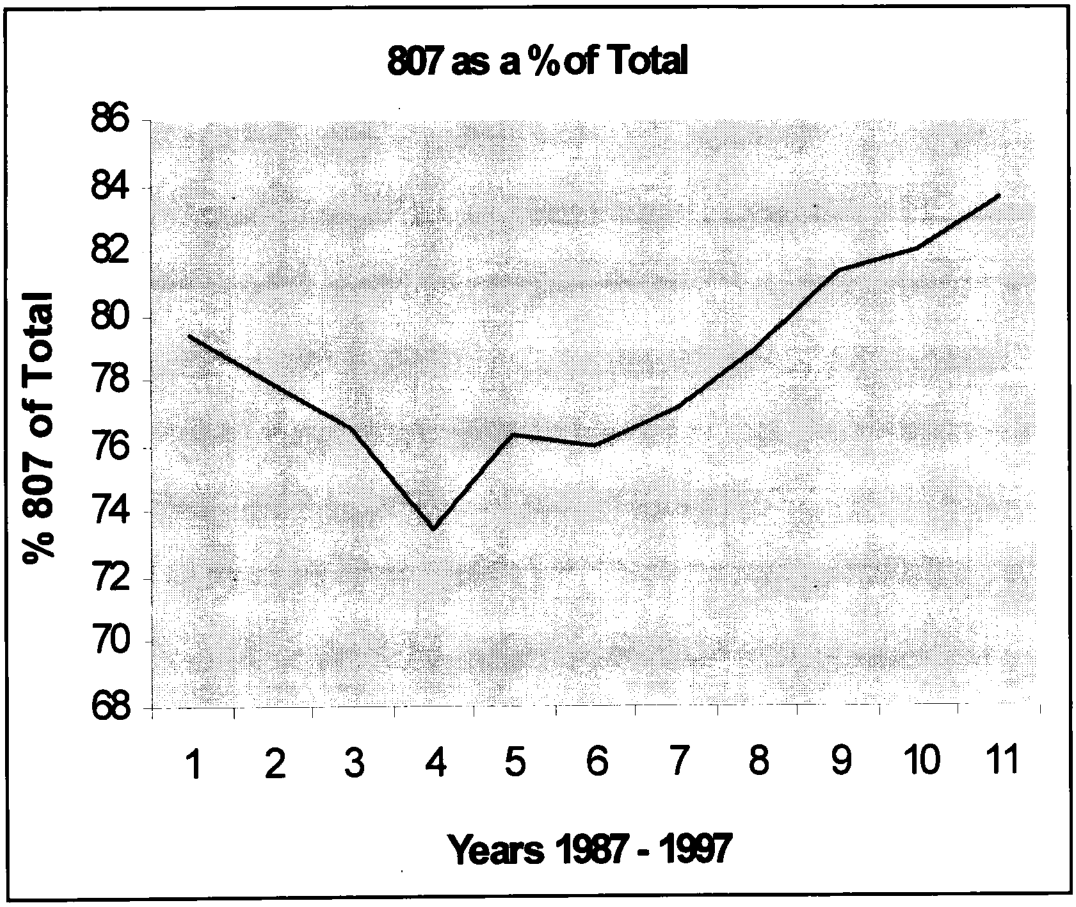


FIGURE 7.20

807 Textile/Apparel Exports from CBI as a % of Total Textile/Apparel Exports to U.S.



Total Textile/Apparel Exports from CBI to U.S.

807 exports are the category which make up the majority of Jamaican[4] and other CBI exports to the U.S., and which Caribbean officials claim will face the most competition from Mexico as a result of NAFTA.

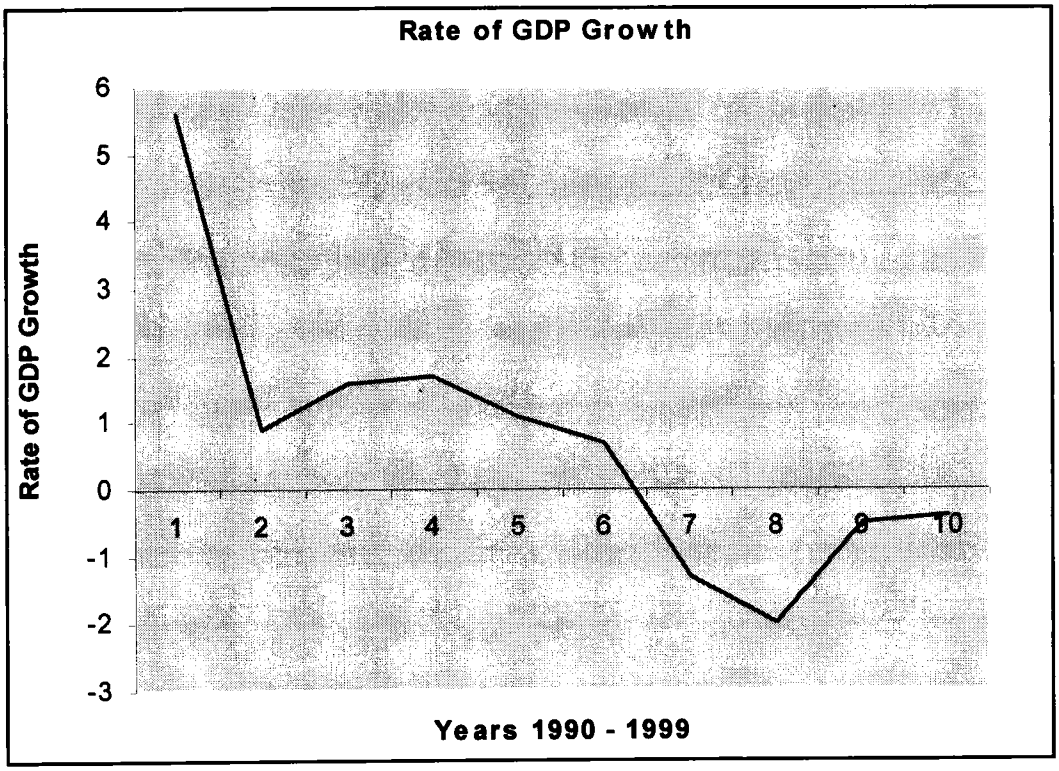
In attempting to determine if decreased exports from Jamaica was as a result of NAFTA, it was noticed that while Jamaican textile/apparel exports to the U.S. markets began decreasing in the late 1990s, the total from the CBI region to the U.S. continued to increase, and so did the dollar value of the 807 category. This fact was also acknowledged in a meeting held in Kingston of industry officials after the signing of the CBI Parity Bill.[5] Not only did the total 807 exports from the region to the U.S. continue its increase, throughout the 1990s, but the percentage of 807 exports to total exports also continued to increase, after experiencing a slight decrease between 1988 and 1990.

[4] Disaggregated 807 textile/apparel exports for Jamaica for any series of years between the 1980s and 1990s were not available, but it has been established that the overwhelming majority of textile/apparel exports to the U.S. is under the 807 category because of the preferential treatment.

[5] In a statement by Peter King, Jamaica's chief negotiator on the industry, at a meeting held in Kingston in May 2000, with industry officials to brief them on the passage of the CBI Parity Bill.

FIGURE 7.21

Jamaica's Rate of GDP Growth : (%)



Jamaica's Rate of GDP Growth

It has been suggested by Jamaican government officials that the decline in the textile/apparel industry will affect the entire Jamaican economy - employment, foreign exchange and thus the overall growth of the economy. However, in analyzing the rate of GDP growth as a barometer or indicator of growth of the economy, data show where the rate began to decrease consistently beginning in the early 1990s, continuing its decline throughout the 1990s. Thus even if the suggestion is made that the decline in the industry caused the growth in the economy to decline, the claim that NAFTA is partly responsible for the decline in the economy cannot be substantiated from the data available, since the economy began its decline prior to the NAFTA years.

Conclusions Drawn

It is clear from the analysis on the textile/apparel industry in Jamaica that the sector has played and continues to play an important role in the overall health of the country's economy. However, what this study is unable to substantiate with the available data is that NAFTA has had a negative impact on Jamaica's textile/apparel industry, diverting U.S. trade away from Jamaica to Mexico.

The data show that while U.S./Jamaica trade relations fell in the mid to late 1990s in terms of merchandise trade, capital investments in the textile/apparel industry and textile/apparel exports, U.S./Mexico trade relations in similar categories increased. This increase, however, was a continuation of the trend which had occurred in prior years. Therefore one may tend to agree with the assertion by Anne O. Krueger that "some part of the increase in Mexico's share of the U.S. market after NAFTA would have occurred without NAFTA"[6], regardless of the possibility of trade diversion.

Mexico's share of trade with the U.S. began a marked increase from the mid 1980s as a result of the liberalization of the country's trade regime. As early as 1980, almost 70% of Mexico's exports and imports were with the U.S. even before there was any real plans for a NAFTA. After 1990, the share of Mexico's exports bound for the

---

[6] Anne O. Krueger, "NAFTA's Effects: A Preliminary Assessment," *The World Economy* 23, no. 6 (1997).

U.S. continued rising sharply, reaching 85% by the mid 1990s.[7] Therefore, more than two thirds of Mexico's trade was with the U.S. by the 1990s. although it must be noted that the rate of increase in Mexico's trade with the U.S. was greater after NAFTA than in the pre NAFTA years. In terms of Jamaica's textile/apparel industry, analysis of the available data indicate that the decline in the sector began occurring prior to NAFTA in the late 1980s as a result of a number of factors that were more internal and of a structural nature than were due to external developments.

In interviews conducted, it was revealed that companies that were closing down beginning in the late 1980s and leaving Jamaica cited high operating costs due to a variety of security issues and high financing and utility costs; inefficient production due to among other things, constraints in implementing multiple shifts; problems with workers and other internal challenges.[8] Available reports from companies that left the country failed to give any indication that they were closing down and relocating to Mexico because of NAFTA. The decreases in textile/apparel exports after 1995 can be associated with the increased plant closures and reduction in U.S. projects implemented as a result of the internal problems cited.

One of the problems that was noticed in undertaking the research for this study, was that the textile/apparel industry in Jamaica has not organized itself as a cohesive and formidable force. There is no single association that represents the industry and brings members together for strategic planning. Manufacturers, retailers and other stakeholders

---

[7] Ibid.

[8] See interviews with industry executives and government officials in Appendix 1.

do not meet regularly to plan strategies for dealing with internal and external developments that may have an impact on the sector. It appears that stakeholders in the industry are apt to place the blame for the decline at the feet of the government, claiming that the government has not done enough. There were accusations that the sector faced neglect by the government once it was developed to a certain level, and few efforts were made to sustain the growth that had been achieved in prior years.[9] However, one may be pressed to ask the question how much more can and should the government do to sustain and develop the industry, after looking at the number of programs that were implemented by the government in support of the industry.

The problem that the Jamaican textile/apparel industry has is not one of being unable to find a market in the U.S. for its exports. On the contrary, the country is able to export most of its textile/apparel products to the U.S. market at the present time. The production capacity on the island can barely fulfill the quota allotments under the present trade agreement because companies are leaving and production is decreasing. Increased quota allotments allowed under the CBPTA will therefore not solve the problem. The country needs to come up with some strategies and programs to fix the maturing problems that have been hatching for a number of years in order to attract new investments and dissuade long established companies from leaving.

The sector also needs to embark aggressively on its plans to seek out new markets, and develop its full package production capabilities so that the country can reap

---

[9] Interview with an executive with Jamwear, a Jamaican subsidiary Sara Lee (Kingston, Jamaica: May 2000).

more of the value added benefits than what the 807 production permits. The CARICOM market is one that may well offer growing opportunities for Jamaica, and one that has not been fully explored in the past.

The country must also remain mindful of fact that the liberalization of the textile/apparel sector in the world market is due to be completed by 2005, and understand how that will affect its trade with the U.S. and the rest of the world, as it will most certainly face increased competition from other textile/apparel producing nations. Jamaica cannot afford to put all its hopes on the CBPTA, which, if the country is not careful, will only serve to delay necessary changes that must take place in order to improve the island's competitiveness for future survival.

CHAPTER 8

CONCLUSION

At the dawn of the twenty first century, developing countries are being confronted with the challenge of adopting suitable policies and reorienting their way of thinking to deal with the changes that have begun to surface as a result of the evolving economic environment. These changes brought about largely by the shift towards fast paced globalization and liberalization are affecting the entire global community, and it is now widely realized that no country is immune from these developments. The manner in which governments, particularly in the least developed nations, choose to adapt to these turn of events will to a large extent determine their progress in moving their nations towards a higher level of socioeconomic development, with accompanying levels of peace and political stability.

The new economic and trade environment dictates that countries adopt trade liberalization practices based on the classical model of free trade, which is geared towards generating export and economic growth. Proponents of free trade argue that trade liberalization - export promotion, currency devaluation, removal of trade restrictions - generates rapid export and economic growth, as a result of the benefits, both dynamic and static, that can be derived from the process.[1] These benefits include among

---

[1] Michael Todaro, *Economic Development* (New YorK: Longman Press, 1994), 506.

other things, equal access to scarce resources and improvement in the overall allocation of these resources.[2] Although trade liberalization following World War II contributed to rapid economic growth which facilitated further trade liberalization primarily in the more industrialized economies, the same cannot be said for the process in the case of the majority of the LDCs. These countries experienced stagnating rates of growth even with increased exports to developed countries in the past three decades.

This outward looking free trade model, based on the premise that the benefits to be derived are those of higher growth rates and an "enhanced capacity to adjust to external shock" [3], in many cases has not lived up to its expectations. The resulting "export pessimism" led many developing countries to experiment with a number of competing models for economic development, none of which offered any long lasting solution to the problems with which these countries were grappling. However, one model which many developing countries continued to pin their hopes on involved the incorporation of preferential trade arrangements with the more developed economies as part of the free trade system. Although these arrangements were meant to be temporary "doorstops" to give LDCs the breathing room to develop their economies, many of the latter became dependent on the agreements for their economic survival, and failed to adequately plan for the possibility that these programs will no longer exist.

---

[2] Ibid.

[3] George A. Dalley, "A Post NAFTA US Trade Policy for the Caribbean," *The Repositioning of U.S. Caribbean Relations* (Westport, NY: Praeger Publishers, 1997), 169.

Critics of these types of preferential trade arrangements argued that preferences tend to promote and perpetuate economic inefficiency and may limit rather than help developing countries in their efforts to increase exports, by giving the more developed countries reasons to implement restrictive legislation.[4] With the expansion or creation of large trading blocs such as the EU and NAFTA within the last decade, and the formation of the WTO, as the main driving force behind globalization and trade liberalization, developing countries have been forced to come to grips with the real likelihood that preferential arrangements can no longer be considered a viable alternative, or as a solution to economic development. One group of LDCs that has been confronted with such a reality is the CARICOM nations. In the case of their main preferential agreement with the U.S., the CBI, some critics argued that while the arrangement continues to provide value in allowing duty free access to the U.S. market, it has failed to realize expectations as an instrument for development.[5]

Added to this, the implementation of NAFTA has been viewed by the CARICOM nations as providing a threat to the benefits they enjoyed under the CBI - that the inclusion of Mexico under this free trade agreement will erode many of the benefits that the CBI provided to them. The industry that has been cited as the one to suffer the greatest challenge on account of NAFTA is the textile/apparel industry, which realized some benefits as a result of the CBI. However, as results indicated from research

---

[4] John Pincus, Trade, Aid and Development: The Rich and Poor Nations (New York: McGraw Hill Book Company, 1967), 198.

[5] Lloyd Searwar, "The Dilemmas of Being Small: Some Thoughts on the CARICOM Approach to the North American Free Trade Area and the Enterprise for the Americas Initiative " (Georgetown, Guyana: May 16, 1991).

conducted on the industry in Jamaica, (one of the main beneficiaries of the CBI in as far as the textile/apparel industry is concerned) there was a paucity of facts showing that countries were being negatively impacted by NAFTA.

Nevertheless, the countries continue to exhibit a strong desire to hold on to such preferential arrangements. This was manifested in their vigorous lobbying efforts that supported the passage of the CBTPA in May 2000. The CBTPA extended preferential access benefits to the CARICOM countries in line with the benefits Mexico received under NAFTA.

It can be argued though, that trying to maintain preferential arrangements' benefits with the U.S. and with other developed countries is not the answer. The CBTPA, for example, may well be a "band aid" and may delay the CARICOM governments from taking serious action to devise alternative strategies to deal with the future loss of preferential access to developed countries' markets in this fast evolving environment of globalization and trade liberalization. This may turn out to be a diversion for the countries from what needs to be a monumental effort to deal with the emerging environment. The EU, which is the other industrialized bloc with which the CARICOM countries have a preferential arrangement, has already renegotiated the longstanding Lome Agreement into a New partnership Agreement which is designed to gradually phase out preferential benefits over a number of years to the beneficiary countries.

What therefore, can the CARICOM countries do in the face of the inevitability that preferences they have previously enjoyed, would be eliminated in the near future? It is imperative that the economies strengthen their intraregional ties and trading arrangements and pursue vigorously the proposed Single Market and Economy that has been on the agenda for some time. The prospect of them becoming a more cohesive economic unit will serve them well in terms of future negotiations with extraregional partners, and provide them with much needed economies of scale, not only in production capacity, but also as a "political voice".

CARICOM nations must look to cultivating markets within the region for one another's exports. The countries cannot and must not shy away from engaging in healthy competition in production among themselves, since this will allow them to become more efficient producers and therefore stronger competitors to extraregional producers. They must also continue to pursue production sharing arrangements, so that the smaller economies can participate in a manner that would be beneficial to all members of the bloc.

The countries have already began taking steps to engage in trade arrangements with other regional economies such as Venezuela, Colombia and the Dominican Republic. However, these efforts need to be expanded to include extraregional partners in Africa and Asia, and with the South American economies of Mercosur. Partnerships arrangements with the Central American economies should also be more vigorously pursued.

The challenges that the region faces are indeed daunting. However, if the governments in the region are able to muster up the political will as a group to confront these challenges, the task will become a less difficult one than if the countries were to confront them individually. CARICOM countries will need to begin building stronger economic and political bridges within their own region to confront the global challenges that lay ahead.

APPENDIX 1

INTERVIEWS, STATEMENTS, QUESTIONS, AND COMMENTS

Interviews conducted with: high level personnel from the Ministry of Industry, Trade and Commerce in Kingston, Jamaica; with an executive of the Kingston Free Zone; with an official of a U.S. subsidiary of a major textile/apparel company in Kingston, and with an owner of a Jamaican owned Textile/apparel company in Kingston.

Interview 1

Interview with High Level Official of the Kingston Free Zone: May 17th , 2000. Kingston, Jamaica.

Researcher:

How did the government view the textile/apparel industry's role in the economy ?

Official:

The government saw the textile industry as a potential solution or help for the unemployment situation and for foreign exchange flows. The quota capacity dictated from the US/Jamaica Bilateral Trade Agreement was very generous, and the Jamaican government decided one way to meet the quotas was to attract companies to the country to meet the quota production capacity.

Researcher:

What have been some of the problems and challenges facing the industry?

Official:

- Up until the late 1980s, the industry was doing quite well. Hurricane Gilbert in 1988 caused damage to some companies in the Kingston Free Zone, which caused some companies to close down, and decreased the amount of space utilization at the Zone.
- Another challenge faced was the decline in the late 1980s of the stock market in the U.S. which also precipitated plant closures in the Zone.
- In the 1980s, transshipment from mostly Asian companies created problems. These Asian companies were bringing in products which were almost already wholly made; however, they were adding small value in Jamaica such as a label "made in Jamaica", and shipping them as Jamaican made products. This violated the Bilateral Agreement and the U.S. Customs began clamping down on these companies. As a result, many companies left or shut down; some even leaving equipment behind. This as an indication that these companies were not moving to Mexico. Many of these companies seemed to be notable for this type of operation - transshipment.

Researcher:

What effect do you think NAFTA has had so far on the industry in Jamaica?

Official:

NAFTA does not seem to be a factor in the decline of the industry which began before the Agreement was implemented. Other CBERA countries have not experienced the same problems as Jamaica, thus NAFTA may not have been the cause. In a study commissioned by the government employing Kurt Salmon Associates, it was found that:

- Jamaica no longer had a large presence as a location in which to operate;

- The government's marketing efforts for the industry had slowed down to a minimum;

- Jampro, which had been charged with marketing the industry and the country as a place to locate a business, went through some changes and cutbacks. A number of their offices were closed.

- Maybe it was complacency, but the island seemed to depend on the marketing efforts of prior years and did not put forth much effort;

- It was also found that the costs of operations were high, about the 3rd highest in the region. Besides, productivity rates were not competitive. Hours of operation in the industry were limited to one shift leaving the machines idle for many hours. Only one shift could be operated because of the security problems facing workers, transportation issues and the Jamaican work culture. It was almost impossible to implement 2nd and 3rd shifts.

- Punctuality and attendance were also problems causing low productivity. Many workers were absent on Mondays because they partied on Sunday nights.

- Utility rates were also very high, since the island imports all fuel and energy in contrast to some other countries such as Belize or Honduras which can use hydroelectric power.

- The problems with security involved the storage of illegal drugs in apparel shipments to North America. It also involved crime and violence .

- Another major issue was that solutions and recommendations given were never implemented.

Most 807 companies that had been in the FTZ have left. One of the biggest companies closed after many years in Jamaica because the company wanted to move from low end to full package operations. They felt that the workforce could not adapt to the new way of operating.

Researcher:

How will NAFTA Parity help the industry?

Official:

Unless certain recommendations are adopted, problems will not be resolved by NAFTA Parity. The government no longer wants to put more resources into supporting the industry. The companies which have left the KFZ have not relocated to Mexico, as has been reported. Many have not given NAFTA as the reason for their closing.

Interview 2

Interview with an Official with the Ministry of Industry, Commerce and Technology, May 15th, 2000. Kingston, Jamaica.

Researcher:

How will NAFTA Parity affect the textile/apparel industry in Jamaica.

Official:

NAFTA Parity would not benefit the industry significantly because of the internal, structural problems which began maturing in the 1990s - security issues, high interest rates, high utility bills, poor workers' attitudes, low productivity.

Researcher:

When you refer to workers' attitude, what exactly are you referring to?

Official:

The militancy of Jamaican workers affect productivity. Workers will not work any more than they have to.

Researcher:

What are some of the major challenges facing the Jamaican economy at the present time?

Official:

Globalization and liberalization - they have negatively affected the agricultural sector. Cheaper imports of fruits and vegetables are crowding out the local domestic fruit/vegetable production. Jamaica lacks the economies of scale to compete with the Central American countries.

Jamaica and the rest of CARICOM need the political will to further regional cooperation so that they can obtain economies of scale to compete with the Central American competitors.

Interview 3

Interview with a High Level Official in the Ministry of Industry, Commerce, and Technology, May 16th , 2000. Kingston, Jamaica.

Researcher:

What has been the government's policies and role in the promotion of the textile/apparel industry?

Official:

The government gave special importance to the industry because of the potential for utilization and employment of women, and for technology transfer. The government thus instituted a number of programs including the Special Assistance Loan Program when the industry began showing signs of decline; the Stand Alone Free Zone, where companies do not need to establish operations in the Free Zone areas to take advantage of the incentives.

Also to level the playing field, the government has also provided some incentives to the customs territory plants, for example, accelerated depreciation, and reduced taxes on primary goods that are utilized in production.

Researcher:

The government's policies offer many incentives to the companies in the Free Zone, which are primarily foreign entities. How have the Customs Territory firms which are not eligible for these programs view the Free Zone Companies and the government policies?

Official:

There has been some nervousness about the situation. While the Free Zone products are supposed to be exclusively for export, the Customs Territory firms are not bound by that limitation. However, an amendment to the Free Zone Act allows the Free Zone companies to export up to 15% into the domestic market. This has also been quite unsettling to the Customs Territory firms.

Researcher:

What would you say are some of the biggest challenges facing the industry?

Official:

The Jamaican industry faces stiff competition from other CBI nations such as the Dominican Republic where labor costs are cheaper.

Interview 4

Interview with Owner of Jamaican Textile Company/Manufacturer: May 24th, 2000. Kingston, Jamaica.

Researcher:

What are some of the major problems facing the domestic companies and the industry as a whole.

Owner:

- For Jamaican owned products, the rules are very stringent. Purchasing textiles from the U.S. is very expensive making it difficult for smaller companies to penetrate the U.S. market. Therefore, Jamaican companies are not able to service large U.S. companies.
- When importing textiles from the U.S., Jamaican companies have to pay higher freight rates sending the goods back to the U.S. after assembly. While a large amount of goods are being imported into the country, less products are exported, therefore is not much economies of scale for exporting causing cost per unit of export to be high. Local companies have to streamline their operations to keep costs down and work with tight margins.
- Lost production due to down-time from holidays, hurricanes, bad weather, delays in the receipt of accessories, and delays in clearance from customs, all add to the problems for Jamaican producers.
- The industry in Jamaica has an indigenous stigma - women are associated with the industry. Men look at it as a "women" sector, and thus holds no appeal to the men, since they would have to compete with the women for the jobs. Men only began coming

into the industry with the establishment of companies from the U.S. and Asia, for example, Jockeys, Sara Lee, Hanes, East Ocean Textiles. Men were used to being in the industry in those countries. In Jamaica, they had to learn the skills which took about 10 years of training.

- Many companies, even the big ones, have gone out of business. For those companies, CBI Parity is tool little, too late. The problems which have included high interest rates, and delayed payments from U.S. companies were just too much. Some Jamaican companies were often never paid or were paid less than they were supposed to be.

- This company now produces strictly for the local market. We had entered into 807A production from 1983 to 1989. We fronted for about eleven other local companies to produce 807A goods. However, out of the original eleven, only three companies are still in business.

- The government encouraged foreign companies in the early 80s with 807 production to get into the business. However, the local companies were somewhat ignored since they regarded the industry more as a cottage industry up until 1985 to 1986. In the mid 1980s, the PNP encouraged the government of the Netherlands to provide training for the local industry. The U.S. government through USAID also assisted the government with HEART program to provide training (GARMEX), for positions such as supervisors and middle management. The industry progressed well.

- This company has been in business for twenty five years with fifty two employees. It is considered a model for small companies. However, small companies such as ours will not benefit form the new legislation. The larger American companies such as Hanes and Jockeys with vertical integration, will benefit more.

- The 807 program was partially responsible for the closure of 6 textile mills which were operating in Jamaica in the early 1980s, because they could not be utilized for providing textile for 807 production. There were strict controls as far as the origin of fabrics were concerned. The Jamaican government strictly abides to the rules - they are afraid to upset the U.S. government, afraid that aid will be cut off.
- East Asian companies closed their operations here because they could not get the quota allotments since they had to use their own fabric. If they had operated here in Jamaica using U.S. fabric, that would have been acceptable. However, they had to use their own fabric and there was no quota provided for that.
- The closing of factories affected not only unemployment, but many other business - packaging, warehouses, accessories, supermarkets, school fees, uniform makers.
- It is cheaper to buy fabric from elsewhere, for example, Colombia than to import U.S. fabric.
- Small companies are now looking at the Caribbean and the Central American market.

Interview 5

Interview with Executive at Jamwear, Maker of Stockings, and a Subsidiary of Sara Lee: May 24th, 2000. Kingston, Jamaica.

Researcher:

What is the main challenge facing the industry?

Executive:

To be cost competitive

Researcher:

What are some of the factors affecting the industry?

Executive:

- Utilities: The industry is a major user of electricity and is therefore very costly. Although this company has its own generator, the contingency fee alone is horrendous if the service fails. The company therefore does not utilize it. A possible solution will be direct legislation that makes concessions.
- The wage factor: The law indicates that after forty hours, the pay should be time and a half. However, when employees work overtime, there is no major increase in efficiency, productivity. People do not feel that it is worth it when they have to pay the extra tax on the overtime.
- Public Transportation: Companies have to incur additional costs for workers particularly on the second shift that ends at ten thirty by engaging their own private transportation. Public transportation does not run after a certain time.
- Security: This is time consuming and costly. Companies have to engage the canine division to sniff for drugs. They also have to purchase electronic monitoring

equipment which is very expensive. Customs engage in the manual selection of containers at random which is very time consuming and costly.

- The industry could be more forceful at lobbying. It also needs to be more cost competitive.
- Another problem with the industry is the migration in the cities. Businesses should be encouraged to locate in various locations to provide employment in those areas, and discourage migration.
- The Ministry of Industry, Commerce and Technology is now concentrating on the technology/information sector. It is trying to attract these companies to Jamaica.
- Industries such as food processing, for example, banana chips, need to be encouraged and developed.
- The culture does not encourage joint ventures, networking, and associations.
- Jampro is not doing enough. It should be involved in working with agencies such as the utility companies to broker better rates, with transportation companies to offer services at alternative hours for workers so that they can work different shifts, and with banks to offer better financing deals.

The following were statements, comments, and questions made by various parties in attendance at an Industrial Advisory Council meeting held in Kingston, Jamaica on May 18th, 2000. The meeting was called in response to the passage of the CBI Enhancement Bill, and was attended by textile/apparel manufacturers, retailers and exporters, government officials, and other industry personnel.

Statement by Philip Paulwell, Minister of Industry, Commerce and Technology:

- Around 80% of Jamaica's textile products goes to the U.S., and is subject to provisions outlined in the Bilateral Treaty.
- The industry in Jamaica is as profitable as anywhere else. It is still viable. The government will be launching a new marketing plan in June, 2000.
- The industry can be profitable for both the local and export market.
- The government will be trying to lure some companies back to the island, particularly now with the passage of the CBI parity Bill.

Statement by Peter King, Jamaican Government lobbyist for the Textile/Apparel Industry

- Although there is a 50% drop in employment in the industry, there is only a 20% drop in volume.
- NAFTA did not affect other Caribbean countries
- There needs to be an effective association for the industry in Jamaica.
- That the domestic companies need to come up with a way to buy more fabric from the U.S. to meet the new opportunity. One possible solution is to form a cooperative.
- Jamaican manufacturers should begin looking to form partnerships with their African partners in order to benefit from the Bill.

Comments, Questions and Concerns of Various Manufacturers and Exporters:

- Taxation hampers employees from working more hours and overtime. The government needs to address this problem.
- The industry needs an association to lobby for such issues as productivity incentives schemes, longer work week, security issues, tax free overtime.
- It is difficult for employees to be rewarded with higher pay when security costs are increasing.

Questions:

- We have been waiting for the Bill for a long time, now what?
- Do the Jamaican government agencies have a plan of action for marketing?
- As far as marketing the Jamaican industry in the U.S. is concerned, what states in the U.S. will be targeted.

Concerns:

- The industry is too fragmented; need to coordinate efforts
- What is being done about dumped goods, for example, unlabeled or falsely labeled goods.
- The Jamaican industry has always lagged in Marketing - the need to step up marketing efforts.

Comments from HEART (the Agency that Provides Training for Workers in the Industry) Representative:

- The agency needs guidance on the type of training required to enhance the industry.
- There is a need for more supervisory/management training to remain relevant and competitive
- The agency hopes to provide more specialized services for small and medium sized companies, and training for the labor force.

Message by Ambassador Richard Bernal, Jamaica's Ambassador to the U.S., via Conference Call

- The Bill is an opportunity; move as quickly as possible
- The industry in the region will need to decide how to proceed as far as quotas are concerned
- Jamaican industry officials needs to come up with a proposal that reflects the peak performance levels as opposed to the last three years to present for how the quotas should be awarded.
- The domestic problems at the systemic level - that of the firm and of the government - need to be fixed as quickly as possible.

APPENDIX 2

TABLES OF INDICATORS

Table A1

Total Estimated Employment in Textile/Apparel Industry

Year	Total	Increase/ Decrease	% Increase/ Decrease
1984	5000		
1985	12500	7500	150.00
1986	15000	2500	20.00
1987	30000	15000	100.00
1988	32000	2000	6.67
1989	25000	-7000	-21.88
1990	27500	2500	10.00
1991	26700	-800	-2.91
1992	28200	1500	5.62
1993	29000	800	2.84
1994	30000	1000	3.45
1995	36000	6000	20.00
1996	28000	-8000	-22.22
1997	23000	-5000	-17.86
1998	22000	-1000	-4.35
1999	18000	-4000	-18.18

Source: Compiled from data from the Textile/Apparel Division, Jampro

Table A2

Textile /Apparel Exports From Jamaica to the U.S. (Square Meters)

Year	Square Meters	Increase	% Increase
1980	7.293		
1981	8.362	1.069	14.7
1982	5.348	-3.014	-36.0
1983	4.621	-0.727	-13.6
1984	8.958	4.337	93.9
1985	29.550	20.592	229.9
1986	71.498	41.948	142.0
1987	69.364	-2.134	-3.0
1988	82.201	12.837	18.5
1989	100.061	17.860	21.7
1990	94.907	-5.154	-5.2
1991	105.464	10.557	11.1
1992	133.954	28.490	27.0
1993	160.679	26.725	20.0
1994	201.862	41.183	25.6
1995	228.006	26.144	13.0
1996	204.283	-23.723	-10.4
1997	194.424	-9.859	-4.8
1998	171.281	-23.143	-11.9

Source: Compiled from data from the United States International Trade Commission, (USITC)

Table A3

Textile/Apparel Exports to the U.S.: ($ U.S Millions.)

Year	Exports	Increase	%Increase /Decrease
1980	13.506		
1981	16.686	3.180	23.5
1982	11.079	-5.607	-33.6
1983	12.895	1.816	16.4
1984	26.184	13.289	103.1
1985	93.729	67.545	258.0
1986	169.737	76.008	81.1
1981	82.801	13.064	7.7
1988	212.480	29.679	16.2
1989	29.533	17.053	8.0
1990	238.375	8.842	3.9
1991	254.577	16.202	6.8
1992	295.873	41.296	16.2
1993	390.919	95.046	32.1
1994	455.066	64.147	16.4
1995	531.934	76.868	16.9
1996	506.293	-25.641	-4.8
1997	472.326	-33.967	-6.7
1998	422.485	-49.841	-10.6

Source: Compiled from data from the U.S. International Trade Commission, (USITC)

Table A4

Number of Textile/Apparel Projects Implemented

Year	# of U.S. Projects	Total Projects
1981	2	4
1982	3	9
1983	1	1
1984	1	29
1985	6	38
1986	4	34
1987	9	35
1988	5	22
1989	1	6
1990	7	14
1991	6	6
1992	3	7
1993	1	8
1994	2	11
1995	2	4
1996	1	7
1997	1	4
1998	0	9
1999	0	6

Source: Compiled from data from the Textile and Apparel Division, Jampro

Table A5

Total U.S. Investment in Textile/Apparel Projects in Jamaica

Year	U.S. Investment ($ JA millions)
1981	0
1982	8
1983	n/a
1984	1
1985	26
1986	4
1987	34
1988	10
1989	n/a
1990	96
1991	n/a
1992	13
1993	44
1994	5
1995	5
1996	7
1997	2
1998	0
1999	100

Source: Compiled from data from theTextile and apparel division, Jampro

Table A6

Total Jobs Created by U.S. Textile/Apparel Projects

Year	# of U.S. Projects	Job Creation
1981	2	130
1982	3	1409
1983	1	220
1984	1	8960
1985	6	3350
1986	4	3559
1987	9	2931
1988	5	2642
1989	1	155
1990	7	1062
1991	6	111
1992	3	422
1993	1	953
1994	2	1280
1995	2	322
1996	1	824
1997	1	117
1998	0	610
1999	0	283

Source: Compiled from data from theTextile and Apparel Division, Jampro

Table A7

Contribution of Key Sectors to Jamaica's GDP: (%)
(1986 base year: Constant Prices)

Year	Export Agriculture	Bauxite/ Alumina	Textile/ Apparel
1987	1.0	6.3	n/a
1988	1.1	5.8	n/a
1989	0.9	7.4	n/a
1990	0.9	8.7	n/a
1991	0.9	9.1	n/a
1992	0.9	8.7	n/a
1993	0.9	8.6	1.2
1994	0.9	9.1	1.5
1995	0.8	8.4	1.6
1996	0.9	9.2	1.4
1997	0.8	9.7	1.1
1998	0.8	1.0	0.9

Source: Compiled from data from the National Income & Product, The Statistical Institute of Jamaica

Table A8

Plant Closures and Jobs Lost:

Year	Total Plant Closures	Total Jobs Lost
1989	3	435
1990	9	1271
1991	8	1002
1992	8	551
1993	4	375
1994	8	2069
1995	8	1445
1996	19	4943
1997	7	1710
1998	9	1635
1999	6	2743

Source: Compiled from data from the Textile and Apparel Division, Jampro

Table A9

Jobs Lost (due to plant closings) as a % of Total Employment

Year	Total	Total Jobs Lost due to Plant Closings	Jobs Lost as a % of Total Employment
1984	5000	n/a	n/a
1985	12500	n/a	n/a
1986	15000	n/a	n/a
1987	30000	n/a	n/a
1988	32000	n/a	n/a
1989	25000	435	1.74
1990	27500	1271	4.62
1991	26700	1002	3.75
1992	28200	551	1.95
1993	29000	375	1.29
1994	30000	2069	6.90
1995	36000	1445	4.01
1996	28000	4943	17.65
1997	23000	1710	7.43
1998	22000	1635	7.43
1999	18000	2743	15.24

Source: Compiled using data fromTextile/Apparel Division, Jampro

Table A10

Export Income Loss due to Plant Closure: ($ U.S. Millions)

Year	Plant Closings	Income Loss
1996	19	42.355
1997	7	35.153
1998	9	56.520
1999	7	97.190

Source: Compiled from data from the Textile and Apparel Division, Jampro

Table A11

U.S. Merchandise Trade with Jamaica
($ U.S. Millions)

Year	U.S. Exports to Jamaica	U.S. Imports from Jamaica	U.S Trade Balance with Jamaica
1983	445	262	183
1984	489	397	92
1985	396	267	129
1986	446	297	149
1987	587	394	193
1988	741	441	300
1989	984	527	457
1990	917	564	353
1991	961	576	385
1992	938	599	339
1993	1116	720	396
1994	1066	747	319
1995	1420	847	573
1996	1491	838	653
1997	1417	738	679
1998	1304	755	549
1999	1293	678	615

Source: Compiled from official statistics of U.S. Dept. of Commerce, ITA Division

Table A12

U.S. Merchandise Trade Balance with Mexico
($U.S. Millions)

Year	Exports to Mexico	Imports From Mexico	Trade Balance with Mexico	% Increase/ Decrease
1983	8,755	16,619	-7,864	
1984	11,461	17,762	-6,301	19.9
1985	13,084	18,938	-5,854	7.1
1986	11,925	17,196	-5,271	10.0
1987	14,045	19,766	-5,721	8.5
1988	19,853	22,617	-2,764	51.7
1989	24,117	26,557	-2,440	11.7
1990	27,468	29,506	-2,038	16.5
1991	33,277	31,130	2,147	205.4
1992	40,592	35,211	5,381	150.6
1993	41,581	39,917	1,664	69.1
1994	50,844	49,494	1,350	18.9
1995	46,292	62,101	-15,809	(1,271.0)
1996	56,792	74,297	-17,505	(10.7)
1997	71,388	85,938	-14,550	16.9
1998	78,773	94,629	-15,856	9.0
1999	86,909	109,721	-22,812	3.9

Source: Compiled from statistics from the U.S. Dept. of Commerce, ITA Division

Table A13

Total Textile and Apparel Exports from Mexico to the U.S. ($ U.S. Millions)

Year	Total	Increase	% Increase
1987	495.3		
1988	564.6	69.3	14.0
1989	646.9	82.3	14.6
1990	678.4	31.5	4.9
1991	879.4	201.0	29.6
1992	1,117.4	238.0	27.1
1993	1,371.9	254.5	22.8
1994	1,894.4	522.5	38.1
1995	3,035.9	1,141.5	60.3
1996	4,229.5	1,193.6	39.3
1997	5,927.7	1,698.2	40.2

Source: Compiled from statistics from the USITC, Washington

Table A14

807 Exports from Mexico to U.S. : ($ U.S. Millions)

Year	807	Increase	% Increase	% 807 of Total
1987	335.2			67.7
1988	406.0	70.8	21.12	71.9
1989	492.0	86.0	21.18	76.1
1990	496.0	4.0	0.81	73.1
1991	662.5	166.5	33.57	75.3
1992	884.9	222.4	33.57	79.2
1993	1104.5	219.6	24.82	80.5
1994	1561.2	456.7	41.35	82.4
1995	2378.7	817.5	52.36	78.4
1996	3099.6	720.9	30.31	73.3
1997	4232.2	1132.6	36.54	71.4

Source: Compiled from statistics from the USITC

Table A15

Total Textile/Apparel Exports from CBI to U.S.
($U.S. Millions)

Year	Total	Increase	% Increase
1987	1,125.4		
1988	1,474.5	349.1	31.02
1989	1,800.7	326.2	22.12
1990	2,024.7	224.0	12.44
1991	2,589.6	564.9	27.90
1992	3,357.8	768.2	29.66
1993	4,064.4	706.6	21.04
1994	4,592.5	528.1	12.99
1995	5,544.0	951.5	20.72
1996	6,106.4	562.4	10.14
1997	7,693.2	1,586.8	25.99

Source: Compiled from statistics from the USITC

Table A16

Total 807 Textile/Apparel Exports from CBI to U.S.
($ U.S. Millions)

Year	Total 807	Increase	% Increase	% 807 of Total
1987	894			79.43
1988	1148	254.4	28.5	77.88
1989	1377	229.1	20.0	76.49
1990	1487	109.8	8.0	73.45
1991	1975	488.0	32.8	76.27
1992	2550	575.1	29.1	75.95
1993	3134	583.5	22.9	77.10
1994	3624	489.7	15.6	78.90
1995	4508	884.1	24.4	81.31
1996	5008	500.5	11.1	82.01
1997	6432	1,424.1	28.4	83.61

Source: Compiled from statistics from the USITC

Table A17

Jamaica's Rate of Growth of GDP: (%)

Year	Rate
1990	5.6
1991	0.9
1992	1.6
1993	1.7
1994	1.1
1995	0.7
1996	-1.3
1997	-2.0
1998	-0.5
1999	-0.4

Source: National Income & Product 1999, The Statistical Institute of Jamaica

BIBLIOGRAPHY

Books

Baldwin, Richard E., Daniel Cohen, Andre Sapir, and Anthony Venables, eds. *Market Integration, Regionalism and the Global Economy*. Cambridge University Press, 1999.

Bakan, Abigail B., David Cox, and Colin Leys, eds. *Imperial Power and Regional Trade: The Caribbean Basin Initiative*. Ontario: Wilfrid Laurier University Press, 1993.

Bryan, Anthony T., ed. *The Caribbean: New Dynamics in Trade and Political Economy*. Miami: University of Miami North-South Center, 1995.

Bulmer-Thomas, Victor, Nikki Craske, and Monica Serrano. eds. *Mexico and the North American Free Trade Agreement: Who Will Benefit*. New York: St. Martin's Press, 1994.

Dookeran, Winston C., ed. *Choices and Change: Reflections on the Caribbean*. Washington, D.C.: Interamerican Development Bank, 1996.

Echeverri-Carroll, ed. *NAFTA and Trade Liberalization in the Americas*. Austin: Bureau of Business Research in Cooperation with the IC2 Institute, 1995.

Eatwell, John, Murray Millgate, and Peter Newnan, eds. *Economic Development*. New York: W.W. Norton, 1989.

Fatemi, Khosrow, ed. *International Trade in the Twenty First Century*. New York: Elsevier Science Inc., 1997.

Fatemni, Khosrow, and Dominick Salvatore, eds. *The North American Free Trade Agreement*. London: Pergamon Press, 1994.

Frankel, Jeffrey A. *Regional Trading Blocs in the World Economic System*. Washington, D.C.: Institute for International Economics, 1997.

Ghosh, Pradip K., ed. *International Trade and Third World Development*. Westport, CT: Greenwood Press, 1984.

Globerman, Steven, and Michael Walker, eds. *Assessing NAFTA: A Trinational Analysis*. Vancouver: The Fraser Institute, 1993.

Gonzales, Anthony. *Reciprocity in Future ACP/EU Trade Relations with Particular Reference to the Caribbean.* Trinidad and Tobago: Institute of International Relations, 1996.

Herrick, Bruce, and Charles Kindleberger. *Economic Development*. New York: McGraw Hill Books Company, 1983.

Hewan, Clinton G. *Jamaica and the United States Caribbean Basin Initiative: Showpiece or Failure*. New York: Peter Lang Publishing Inc., 1994.

Hope, Kempe Ronald. *Economic Development in the Caribbean.* New York: Praeger Publishers, 1986.

Hufbauer, Gary Clyde, and Jeffrey J. Schott. *NAFTA: An Assessment.* Washington, DC: Institute for International Economics, October 1993.

Krueger, Anne O., ed. *The WTO as an International Organization*. Chicago: The University of Chicago Press, 1998.

Leys, Colin. *Britain, the Caribbean Basin, and the Caribbean Basin Initiative*. Ontario: Donner Canadian Foundation Project on Sovereignty and Security, 1989.

Lindert, Peter H. *International Economics*. Chicago: R.D. Irwin Inc., 1991.

Looney, Robert E. *The Jamaican Economy in the 1980s: Economic Decline and Sturctural Adjustment*. Boulder: Westview Press Inc, 1987.

MacArthur, John R. *The Selling of 'Free Trade': NAFTA, Washington and the Subversion of American Democracy*. New York: The McGraw Hill Companies, Inc., 2000.

McAfee, Kathy. *Storm Signals: Structural Adjustment and Development Alternatives in the Caribbean.* Boston: South End Press, 1991.

McKee, David L., ed. *External Linkages and Growth in Small Economies*. Westport: Praeger Publishers, 1994.

Montalvan, George P., ed. *Promoting Investment and Exports in the Caribbean Basin: Papers and Proceedings*. Washington, D.C.: General Secretariat, OAS, 1989.

Oman, Charles P., and Ganeshan Wignaraja. *The Post War Evolution of Development Thinking*. New York: St. Martin's Press, 1991.

Palmer, Ransford, ed. *The Repositioning of US-Caribbean Relations in the New World Order*. New York: Praeger Publishers, 1997.

________. *Caribbean Dependence on the United States Economy*. New York: Praeger Publishers, 1979.

Pincus, John. *Trade, Aid and Development: The Rich and Poor Nations*. New York: McGraw Hill Book Company, 1967.

Pomfret, Richard. *The Economics of Regional Trading Arrangements*. Oxford: Clarendon Press, 1997.

Prebisch, Raul. *The Economic Development of Latin America and Its Imperial Problems*. New York: UNECLAC, 1950.

Ramsaran, Ramesh, F. *U.S. Investment in Latin America and the Caribbean: Trends and Issues*. New York: St. Martin's Press, Inc., 1985.

Schott, Jeffrey J., ed. *Free Trade Area and U.S. Trade Policy*. Washington, D.C.: Institute for International Economics, 1989.

Theberge, James D., ed. *Economics of Trade and Development*. New York: John Wiley & Sons, Inc., 1968.

Tirado de Alonso, Irma, ed. *Trade Issues in the Caribbean* . Philadelphia: Gordon and Breach Science Publishers, 1992.

Todaro, Michael P. *Economic Development*. 5th Edition. New York: Longman Press, 1994.

Weintraub, Sidney. *NAFTA at Three: A Progress Report*. Washington, D.C.: The Center for Strategic and International Studies, 1997.

Weston, Ann, and Usha Viswanathan, eds. *Jamaica After NAFTA: Trade Options and Sectoral Strategies*. Ottawa: The Ian Randle Publishers, 1998.

Articles: Journals and Trade Magazines

Abend, Jules. "U.S. Contractors Diversify." *Bobbin* 41, no. 4 (December 1999): 1.

Bernal, Richard. "The Caribbean Free Trade Agreement, NAFTA and the Caribbean Basin Initiative." *Caribbean Forum* 1, no. 1 (n.d.): 1.

Bridges Weekly Trade News Digest. "Quad's Confidence-Shattering Trade Package: TRIM's Extensions Undefined." 4, no. 14 (April 11, 2000): 1.

________. "ACP-EU Waiver Request Receives Lukewarm Reception." 4, no.14 (April 11, 2000): 1.

________. "U.S. Africa, Caribbean Trade Bill Gets House Nod, Senate to Vote This Week" (May 9, 2000): 1.

________. "Africa-CBI Trade Bill Passes Senate: Carousel Provisions Ignite EU-US Tensions." 4, no. 19 (May 16, 2000): 1.

"Changing Trade Trends Confronting the Caribbean." *CAIC Magazine* 1.1 (4th quarter, 1996) : 1- 23.

Cortazar, Mercedes. "Mexico's La Laguna Excels in Maquila." *Apparel Industry International* (March/April 1998): 1.

________. "Mexico's Export Competitiveness." *Apparel Industry International* (September/October 1998): 1.

________. "Honduras Survives Mexican Competition." *Apparel Industry International* (November/December 1997): 1.

Fieleke, Norman S. "One Trading World or Many: The Issue of Regional Trading Blocs." *New England Economic Review* (January/February 1992) : 10 -11.

Financial Times. "Looming Shadow of NAFTA Spurs CARICOM Into Action" (July 14, 1995): 1.

Gaetan, Manuel. "Is There Logic in CBI Parity?" *Bobbin* (July 1996): 1.

Gittens, Julius. "NAFTA: CARICOM's Prospects Fears and Concerns." *CANABUSINESS: The Financial Magazine of the Caribbean Community* 5, no. 4 (December 1993) : 20 -22.

Gordon, Michael Wallace. "Economic Integration in North America - An Agreement Of limited Dimensions but Unlimited Expectations." *The Modern Law Review* 56, no. 2 (March 1993) : 157-168.

Green, Paula L. "Report: Quota Phaseout to Hurt Caribbean." *The Journal of Commerce* (February 11, 2000): 1.

Griffith, Winston H. "CARICOM Countries and the Caribbean Basin Initiative." *Latin American Perspectives* 17, Issue 64, no. 1 (Winter 1990) : 35 -55.

Hutchinson, Gladstone A. and Ute Schumacher. "NAFTA's Threat to Central American and Caribbean Basin Exports: A Revealed Comparative Advantage Approach." *Journal of Interamerican Studies and World Affairs* (Spring 1994).

"If You Can't Beat them.. [sic] The Threat to CARICOM From NAFTA." *Caribbean and Central American Affairs* (May 18, 1995) : 1- 4.

Isaacs III, McAllister. "Trade Agreements: How They Affect U.S. Textiles." *Textile World* 150, no. 3 (March 2000): 1.

Jacobs, Brenda A. "Have CBI Nations Found a Full Package Opportunity?" *Bobbin* (July 1998) : 70 -71.

________."Regional Pacts Produce New Trade Patterns." *Bobbin* 41, no. 3 (November 1999).

James, Canute. "Caribbean Garment Makers' Fear NAFTA." *Financial Times* (February 6, 1997).

Kessler, Judi, A. "New NAFTA Alliances Reshape Sourcing Scene." *Bobbin* 41, no. 3 (November 1999): 1.

Kirkpatrick, C. "Does Trade Liberalization Assist Third World Industrial Development? Experience and Lessons of the 1980s." *International Review of Applied Economics* 9, no.1 (1995).

Krueger, Anne O. "Trade Policy and Economic Development: How We Learn." *American Economic Review* 87, no. 1 (March 1997) : 1.

________. "Are Preferential Trading Arrangements Trade-Liberalizing or Protectionist?" *Journal of Economic Perspectives* 13, no. 4 (Fall 1999): 105 - 124.

Lewis, David E. "The North American Free Trade Agreement (NAFTA) and Its Impact on the Caribbean Basin Economies." *Caribbean Studies* 24, no. 3 – 4 (1991) : 56 - 67.

Luxner, Larry. "CBI Grows, but Mexico Dominates." *Bobbin* (November 1995) : 73.

Marshall, Don D. "From the Triangular Trade to (N)AFTA: A NeoStructuralist Insight into Missed Caribbean Opportunities." *Third World Quarterly* 17, no. 3 (1996) : 427 - 453.

________. "NAFTA/FTAA and the New Articulations in the Americas: Seizing Structural Opportunities. " *Third World Quarterly* 19, no. 4 (1998) : 673 - 700.

McClenahen, John S. "NAFTA Works." *Industry Week* 249, no. 1 (January 10, 2000).

"NAFTA in Brief." *CanaBusiness* (December, 1993) : 20 - 21.

"NAFTA Parity Analysis: The Caribbean Basin." *AWPA Wireline*, America Wire Producers Association 8, no. 1 (June 1998): 1.

Oatley, Thomas. "Review of The Economics of Preferential Trade Agreements: Stepping Stones or Stumbling Blocks." *Regulation* (Spring 1998).

Palmer, Ransford W. "Caribbean Relations With the U.S. in the 21st Century." *Caribbean Forum* 1, no. 1, Issue 11 (Winter 1994) : 5.

Parker III, Henry G. "Calming the Caribbean Waters." *Global Trade and Transportation* 113 (June 1993) : 6.

Pasquero, Jean. "Regional Market Integration in North America and Corporate Social Management." *Business and Society* 39, no. 1 (March 2000): 1.

Payne, Anthony. "The New Politics of 'Caribbean America'." *Third World Quarterly* 19, no. 2 (1998) : 205 - 218.

Pelzman, Joseph, and Gregory K. Schoepfle. "The Impact of the Caribbean Basin Economic Recovery Act on Caribbean Nations' Exports and Development." *Economic Development and Cultural Change* 36 (July 1988) : 753 - 796.

Riley, Michael. "NAFTA Restructures Border Economies." *Insight on the News* 14, no. 48 (December 28, 1998) : 42 - 43.

Ross, Julie Ritzer. "Shippers Question CBI." *Global Trade* 112 (October 1992): 14.

Selwitz, Robert. "CBI Nations Cry Foul When it Comes to NAFTA." *Global Trade and Transportation* 14 (August 1994) : 6 - 7.

Smith, Geri. "Its Time for the U.S. To Let in More Mexicans." *Business Week* (June 5, 2000).

Stundza, Tom. "Trade Approaches $600 Billion." *Purchasing* 128, no. 3 (March 9, 2000).

Sutton, Paul. "The Banana Regime of the European Union, the Caribbean and Latin America." *Journal of Interamerican Studies and World Affairs* 39, no. 2 (Summer 1997): 1 .

"The Compatability of Caribbean Membership in Lome, NAFTA and GATT." *Social and Economic Studies* 43, no.2 (1994): 140 - 145.

"The View From Washington: A Report on the NAFTA Discussions at This Year's Miami Conference on the Caribbean." *CANABUSINESS: The Financial magazine of the Caribbean Community* 5, no. 4 (December 1993) : 23 - 24.

Van Houten, Jan F. "Assembly Industries in the Caribbean." *Finance and Development* 10, no. 2 (June 1973) : 19 - 37.

Weekly, James K. "The Trojan Horse Issue in a North American Free Trade Area." *Multinational Business Review* 1, no. 2 (Fall 1993) : 19 - 25.

Government Documents

Department of Commerce. *Caribbean Basin Initiative Textile Program.* Washington, D.C. : March 1987.

International Monetary Fund. *International Financial Statistics Yearbook.* Washington, D.C.: 1990.

Jamaica National Investment Promotion Ltd. *Jamaica: Establishing an Off-Shore Apparel Operation in Jamaica.* Kingston, Jamaica: 1992.

Jamaican National Export Corporation Export Garment Industry Survey. Prepared by Coopers and Lybrand Associated Ltd. Kingston, Jamaica: 1988.

Jampro and Kurt Salmon Associates, "Second Draft of a Regional Comparative Analysis and Recommendations on Strategic Initiatives to Increase Apparel Sector Competitiveness and Market Effectiveness." Kingston, Jamaica: January 1997.

Jampro, Kingston, Jamaica:

________. A Report Prepared by Antonios Vouranis. "Productivity for the Apparel Subsector in Jamaica, " 1992.

________. "A Special Report: Jamaica." Reprinted from Corporate Location, *Apparel* July/August 1995.

________. "Establishing an Offshore Apparel Operation in Jamaica." (n.d.).

________. "From 807 to High Fashion ...Jamaica on Show: Jamaica, the Premier Location for Apparel." (n.d.).

________. "Jamaica: Establishing an Offshore Apparel Operations in Jamaica." (n.d.).

________. *Jampro Marketing Plan, 2000 - 2001*. Prepared by Textile and Sewn Products Division. March 2000.

________. *Jampro Marketing Plan*, 1996 - 1997.

________. *Textiles and Sewn Products Annual Report*, April 1996 - March 1997.

________. "The Agreement on Textile and Clothing," (n.d.).

________. "The Jamaican Garment Industry." A submission by the Jamaican Garment Manufacturers Confederation. September 1996.

________. "Updated Report of the Sub-Committee on Adjustment." July 1990.

Letter from Coopers and Lybrand to Jamaica National Export Corporation . Kingston, Jamaica: March 1988.

Letter from Jamaica National Export Corporation to Coopers and Lybrand. Kingston, Jamaica: February 1988.

National Industrial Policy: A Strategic Plan for Growth and Development. The Jamaican Government. Kingston, Jamaica: April 1996.

National Planning Institute. *Economic and Social Survey* (several issues). Kingston, Jamaica.

Office of the U.S. Trade Representative. "The African Growth and Opportunity Act and Caribbean Basin Initiative Trade Enhancement Act." Washington, D.C.: May 2000.

Planning Institute of Jamaica, *Social and Economic Survey* (several issues). Kingston, Jamaica: 1980 - 1999.

Report from the United States Trade Representative. "Second Report to Congress on the Operation of the Caribbean Basin Economic Recovery Act." Washington, D.C.

Statistical Institute of Jamaica. Kingston, Jamaica.

________. External Trade 1999, Preliminary Report, Part I. 1999.

________. *National Income and Product*, 1980 - 1999.

________. *Statistical Yearbook of Jamaica*, 1991 - 1998.

The Commonwealth Secretariat. "Commonwealth Guide to Trading with NAFTA Countries: Practical Information for Business." London : 1995.

________. "Jamaica: Productivity Improvement and Upgrading of Garment Factories." January 1986.

The Jamaican Garment Manufacturers Confederation. *The Jamaican Garment Industry*. September 1996.

The Jamaican Government. *National Industrial Policy: A Strategic Plan for Growth and Development*. Kingston, Jamaica: April 1996.

U.S. Department of Labor. Bureau of International Labor Affairs. *Yearbook of Labor Statistics*, 1989 – 1990. Washington, D.C.: 1989.

"U.S. Foreign Assistance and Economic Reform." Report by Richard Bernal, Jamaica's Ambassador to the U.S., submitted to the Senate Committee on Appropriations Subcommittee on Foreign Operations, Export Financing and Related Agencies. Washington, D.C.: April 1995.

United States Agency for International Development. "Obligations and Loan Authorization, FY 1946 - FY 1992." Washington. D.C. : 1993.

U.S. Newswire. White House Fact Sheet. "Details of the Trade and Development Act of 2000." Washington, D.C.: May 2000.

USITC Publication 3132, "Caribbean Basin Economic Recovery Act: Impact on the U.S.", Investigation No. 332-227. USITC. Washington, D.C. : September 1998.

USITC. "Investigation No. 332-352: Impact on the U.S." Washington D.C.: September 1997.

USITC Publication 3058, "Caribbean Basin Economic Recovery Act, Twelfth Report 1996, Investigation No. 332-227: Andean Trade Preference Act, Fourth Report 1996." Washington, D.C.: 1996.

USITC Publication 2541, "Potential Effects of a North American Free Trade Agreement on Apparel Investment in CBERA Countries." USITC, Washington D.C.: July 1992.

Papers, Reports and Studies

Bryan, Anthony. "Trading Places: The Caribbean Faces Europe and the Americas in the Twenty First Century." The North-South Agenda Papers, #27. Miami: North-South Center, University of Miami, June 1997.

Coopers & Lybrand Associates, Ltd. "Jamaica National Export Corporation Export Garment Industry Survey." Kingston, Jamaica. 1988.

Fauriol, Geroges A. Project Director, and G. Philip Hughes, Senior Editor. "U.S. – Caribbean Relations Into the 21st Century: Policy Papers on the Americas." Washington, D.C.: Center for Strategic and International Studies, 1995.

Gonzales, Anthony. "Reciprocity in Future ACP/EU Trade Relations with Particular Reference to the Caribbean." St. Augustine, Trinidad and Tobago: Institute of International Relations, UWI, October 1996.

GSR Associates. *Report on the North American Free Trade Agreement: Study Prepared for the CARICOM Secretariat. The Implications for the CARICOM Region and the Proposed Response.* Port-of-Spain, Trinidad., n.d.

Hosten-Craig, Jennifer. "The Effect of a NAFTA on the Commonwealth Caribbean." A Report Submitted to the Bureau for International Education Under the CIDA Awards for Canadian Programme. Ottawa, Canada, January, 1992.

Hyvarinen, Antero. Senior Market Development Officer. "The Changing Pattern of International Trade in Textiles and Clothing: Implications of the Introduction of the Agreement on Textiles and Clothing on the Developing Countries Producing/ Exporting Textiles and Clothing." N.Y.: International Trade Centre, UNCTAD/GATT, June 1996.

Kurt Salmon Associates, Inc.

________. "A Regional Comparative Analysis and Recommendations on Strategic Initiatives to Increase Apparel Sector Competitiveness." Kingston, Jamaica, 1998.

________. "Project Summary Product/Market Export Strategy for the Jamaican Apparel Industry." Kingston, Jamaica. July 1982.

Michaely, Michael and Demetris Papageorgiu. "Small Economies: Trade Liberalization, Trade Preferences, and Growth." Paper prepared in response to a request by the Working Group on Small Economies for World Bank Assistance, (n.d.).

"Productivity for the Apparel Sub-sector in Jamaica." A report prepared by Antonios Vouranis. A project coordinated by Jampro. Kingston, Jamaica, 1992.

Rajapatirana, Sarath. "The East Asia Experience and its Relevance to the Caribbean Within the NAFTA Environment." Paper prepared for the Investment Conference organized by Development Finance Limited. Port-of- Spain, Trinidad and Tobago, March 1994.

Samuel, Wendell A. "The OECS-EC Trade Under the Lome Convention: The Promise and the Disappointment." Barbados, University of the West Indies, 1989.

Scott, Robert E. "Rebuilding the Caribbean: A Better Foundation for Sustainable Growth." Briefing Paper, Economic Policy Institute. Washington, D.C., March 1999.

Searwar, Lloyd. "The Dilemmas of Being Small: Some Thoughts on the CARICOM Approach to the North American Free Trade Area and the Enterprise for the Americas Initiative." Georgetown, Guyana, May 1991.

"Small and Relatively Less Developed Economies and Western Hemisphere Integration." A publication of the Organization of American States, Trade Unit. Washington, D.C., April 1997.

"Special and Differential Treatment in International Trade." Submitted to the Working Group on Smaller Economies. Organization of American States, Trade Unit. Washington, D.C., November, 17, 1995.

Steele, Peter. "The Caribbean Clothing Industry: The U.S. and the Far East Connection." The Economist Intelligence Unit, Special Report no. 1147. October 1988.

"The Caribbean and the North American Free Trade Agreement." UNECLAC, Caribbean Development and Cooperation Committee (CDCC). 14th Session of CDCC. St. George's, Grenada, December 1992.

"The Caribbean and the Outcome of the Uruguay Round in the Context of NAFTA and FTAA." UNECLAC, Caribbean Development and Cooperation Committee. 16th Session of the CDCC. St. John's, Antigua and Barbuda, February. 1996.

The Conference Board of Canada. "Impact of Canada – United States Free Trade on CARIBCAN Countries." A Report Prepared for the Department of External Affairs, Ottawa, Ontario, October 1988.

The Latin American Economic System. "Understanding the North American Free Trade Agreement." The XIX Regular Meeting of the Latin American Council, Caracas, Venezuela. October 1993.

The World Bank, "Caribbean Countries: Economic Situation, Regional Issues, and Capital Flows." A World Bank Country Study. Washington, D.C., 1988.

The World Competitiveness Report. IMD International. Lausanne, Switzerland, 1990.

UNECLAC. "Open Regionalism in Latin America and the Caribbean: Economic Integration as a Contribution to Changing Production Patterns with Social Equity." Santiago, Chile, 1994.

UNECLAC. "The Caribbean and the North American Free Trade Agreement," Caribbean Development and Cooperation Committee, 14th Session of CDCC, St. Georges, Grenada. December 1992. United Nations Economic Commission for Latin America and the Caribbean. Santiago, Chile.

Worrell, DeLisle. "Caricom and the North American Free Trade Area." Prepared for the Overseas Development Council. (n.p.) February, 1992.

Periodicals

"Caribbean Welcomes New US Trade Privileges." *The Jamaican Observer*, Kingston, Jamaica, November 6 , 1999.

"NAFTA Parity For CBI Unlikely Following Fast Track Defeat." *The Jamaican Observer*, Kingston, Jamaica, October 3, 1998.

"Passage of CBI Enhancement May Wait Till January." *The Jamaican Observer*, Kingston, Jamaica, November 15, 1999.

Raum, Tom. "Africa, Caribbean Trade Bill Passed." *Associated Press*, Washington, D.C., November 4, 1999.

Rohter, Larry. "Impact of NAFTA Pounds Economies of the Caribbean: Jobs Flowing to Mexico. Backlash From NAFTA Batters Economies of Caribbean. 150 Apparel Factories Closed in the Last Two Years – Plans for Parity Stall." *The New York Times*, January 30, 1997.

"Strong Support for NAFTA Parity for Caribbean Countries." *The Jamaican Observer*, Kingston, Jamaica, March 25, 1999.

"The Lome Convention: A Unique Model for Development Cooperation." *Stabroek News*, May 9, 1997.

"US Senate Finance Committee Extends CBI Benefits." *The Jamaican Observer*, Kinston, Jamaica , June 28, 1999.

"U.S. Bill Could Return Lost Jobs: A Proposed Trade Law Could Help Caribbean and Central American Countries Back Jobs to NAFTA." *Greensboro News and Record* via ProQuest, November 18, 1999.

Online Sources

"AAMA Official Testifies to Congress that Trade is Crucial to Rebuilding Countries Damaged by Hurricanes Mitch, Georges." Available from *http://www.onlinetextilenews.com/news* ; Internet; accessed March 29, 1999.

"American Apparel Alliance Responds to Statements Made Concerning Pending Trade Legislation." Available from *http://www.onlinetextilenews.com;* Internet; accessed November 1, 1999.

"ATM President Addresses Southern Textile Association." Available from *http://textileweb.com;* Internet; accessed June 23, 2000.

"Caribbean Basin Initiative and Trade Relations." Available from *http://www.textileweb.com;* Internet; accessed May 12, 2000.

"Congress: The Unravelling of CBI Parity and Its Impact on Manufacturers" by Jack Morgan. Director of Communications for AAMA. Available from *http:// www.bobbin.com*; Internet; accessed November 12, 1999.

"CTPA: A good Deal for America." Available from *http://www.aimmagazine.com*, apparel industry magazine; Internet; accessed November 12, 1999.

"EU-ACP Agree to New Trade and Aid Accord." Available from *http://www.ictsd.org*; Internet; accessed February 8, 2000.

"Government Workers, Apparel Companies Unite to Blast Caribbean Free Trade Bill." Available from *http://www.onlinetextilenews.com;* Internet; accessed September 10, 1999.

"NKSA Urges Members to Write to Congress." Available from *http://www.onlinetextilenews.com*; Internet; accessed October 10, 1998.

"NCC Elated Over House Passage of Caribbean Trade Arrangement." Available from *http://www.textileweb.com;* Internet; accessed May 5, 2000.

"Northern Textile Association Reaffirms Support for U.S. Yarn and Fabric in CBI." Available from *http://www.onlinetextilenews.com*: Internet; accessed February 18, 1999.

"Study Shows 'Yarn-Forward' Caribbean Basin Initiative Trade Legislation Would Benefit Industry." Available from *http://www.onlinetextilenews.com;* Internet; accessed September 20, 1999.

"Textile and Apparel Related Legislation." Available from. *http://otexa.ita.doc.gov*; Internet; accessed May 2000.

"U.S. Apparel Manufacturers Welcome U.S. Senate Passage of CBI/Africa Trade Bill." Available from *http://www.textileweb.com;* Internet; accessed May 12, 2000.

"U.S. Apparel Manufacturers Group Endorses U.S. House Central America Recovery Bill". Available from *http://www.onlinetextilenews.com/news.* Internet; accessed March 4th, 1999.

Interviews with Jamaican Government and Industry Officials by author

________. Ministry of Industry, Trade and Commerce Official. "Government Policies for Industry." May 16 2000. Kingston, Jamaica.

________. Ministry of Industry, Trade and Commerce Senior Official. "Problems Affecting Textile Industry." May 15, 2000. Kingston, Jamaica.

________. Jampro/Textile and Sewn Products Division Official. May 20, 2000. Kingston, Jamaica.

________. Jamaican textile company business owner. "Current State of the Textile Industry in Jamaica." . May 24, 2000. Kingston, Jamaica.

________. Executive with Jamwear, subsidiary of Sara Lee in Jamaica. May 24, 2000. Kingston, Jamaica .

________. Senior Official with the Kingston Free Trade Zone. "State of Affairs of Textile Industry in Jamaica." May 17, 2000. Kingston, Jamaica.

Other Sources

Interpress Service, Global Information Network:

________. "Caribbean-Textiles: Export Earnings Fail to Keep Pace With Volume." March 9, 1995.

________. Wilkinson, Bert. "Much Hope Hangs on Trade Bill." Georgetown, Guyana. November 8, 1999.

Letter to Congressman John Spratt, from the Central American and Caribbean Textile and Apparel Council (CACTAC) Supporting Interim Trade Program (ITP). June 1994.